

The structured products involve derivatives. Do not invest in them unless you fully understand and are willing to assume the risks associated with them.

Non-collateralised Structured Products

Issuer



STANDARD CHARTERED BANK

(incorporated in England with limited liability by Royal Charter 1853)

Sponsor

STANDARD CHARTERED BANK (HONG KONG) LIMITED

(incorporated in Hong Kong with limited liability)

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This base listing document, for which the Issuer accepts full responsibility, includes particulars given in compliance with the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the “**Stock Exchange’s Listing Rules**”) for the purpose of giving information with regard to the Issuer and the structured products referred to in this base listing document. The Issuer, having made all reasonable enquiries, confirms that to the best of its knowledge and belief the information contained in this base listing document is accurate and complete in all material respects and not misleading or deceptive, and there are no other matters the omission of which would make any statement herein or this base listing document misleading.

We, the Issuer of our structured products, are publishing this base listing document in order to obtain a listing on the Stock Exchange of our warrants and our callable bull/bear contracts (“**CBBCs**”). We will refer to the warrants and the CBBCs as “structured products” in this base listing document.

Investors are warned that the price of the structured products may fall in value as rapidly as it may rise and holders may sustain a total loss of their investment. Prospective purchasers should therefore ensure that they understand the nature of the structured products and carefully study the risk factors set out in this base listing document and, where necessary, seek professional advice, before they invest in the structured products.

The structured products constitute general unsecured contractual obligations of the Issuer and of no other person and will rank equally among themselves and with all our other unsecured obligations (save for those obligations preferred by law) upon liquidation. If you purchase the structured products you are relying upon the creditworthiness of the Issuer and have no rights under the structured products against (i) the company which has issued the underlying securities; (ii) the trustee or the manager of the underlying fund or trust; or (iii) the index compiler of any underlying index. If we become insolvent or default on our obligations under the structured products, you may not be able to recover all or even part of the amount due under the structured products (if any).

The distribution of this base listing document, any addendum and the offering, sale and delivery of structured products in certain jurisdictions may be restricted by law. You are required to inform yourselves about and to observe such restrictions. Please read Annex 3 “Purchase and Sale” to this base listing document. **The structured products have not been and will not be registered under the United States Securities Act of 1933, as amended (the “Securities Act”), and may not be offered or sold within the United States or to or for the account or benefit of U.S. Persons (as defined in Regulation S under the Securities Act).**

IMPORTANT

If you are in doubt as to the contents of this base listing document, you should obtain independent professional advice.

Copies of this base listing document and its addendum (if any), the relevant supplemental listing document (together with a Chinese translation of each of these documents) and other documents listed under the section “Where can I read copies of the Issuer’s documentation?” in this base listing document may be inspected at the offices of Standard Chartered Bank (Hong Kong) Limited at 15th Floor, Two International Finance Centre, 8 Finance Street, Central, Hong Kong.

本基本上市文件及其增編(如有)及有關補充上市文件(及以上各份文件的中文譯本)連同本基本上市文件之「本人從何處可查閱發行人的文件?」一節所列之其餘文件,可於渣打銀行(香港)有限公司的辦事處,地址為香港中環金融街八號國際金融中心二期十五樓查閱。

We do not give you investment advice; you must decide for yourself, after reading the listing documents for the relevant structured products and, if necessary, seeking professional advice, whether our structured products meet your investment needs.

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SUMMARY OF OUR STRUCTURED PRODUCTS

The types of structured products that we may issue include, but are not limited to: cash-settled stock warrants, cash-settled warrants relating to the units of a fund or trust, cash-settled index warrants, cash-settled CBBCs relating to a share, cash-settled CBBCs relating to an index and cash-settled CBBCs relating to the units of a fund or trust. Each type of our structured products will be subject to a separate set of master terms and conditions either as set out in Annex 1 or 2 (as applicable) to this base listing document (for the structured products listed above) or as set out in the relevant supplemental listing document (for other types of structured products). For each issue of our structured products, we will publish a supplemental listing document setting out the specific terms. The specific terms set out in the relevant supplemental listing document supplement and amend the applicable set of master terms and conditions to form the legally binding terms and conditions of that issue of structured products.

We describe below the main features of the different types of our structured products.

General features of our structured products:

Issuer:	Standard Chartered Bank (“SCB”)
Sponsor:	Standard Chartered Bank (Hong Kong) Limited
Issuer’s long-term credit ratings (as of the day immediately preceding the date of this base listing document):	AA– by Standard & Poor’s Ratings Services, a division of The McGraw-Hill Companies, Inc. A1 by Moody’s Investors Service, Inc.
Ranking of our structured products:	Upon the occurrence of a mandatory call event (in the case of our CBBCs) or upon exercise, our structured products will become our direct, unconditional, unsecured and unsubordinated obligations ranking equally with all our other direct, unconditional, unsecured and unsubordinated obligations.
Liquidity provider:	Standard Chartered Securities (Hong Kong) Limited or such other entity appointed by us as may be specified in the relevant supplemental listing document. We will describe in each supplemental listing document our obligations to provide liquidity in our structured products.
Form:	In registered form subject to and with the benefit of a deed poll made by us. Each issue will be represented by a global certificate registered in the name of HKSCC Nominees Limited (or its successors) or another nominee of Hong Kong Securities Clearing Company Limited as holder, and deposited within the Central Clearing and Settlement System (“CCASS”). We will not issue any definitive certificates for our structured products.
Use of proceeds:	The net proceeds from the issue of our structured products will be used for the general business purposes of Standard Chartered PLC and its subsidiaries (the “Group”).

Further issues:	We can issue further structured products to form a single series with an existing issue of our structured products.
Delisting of the company, fund or trust underlying our structured products:	If the shares of the company or the units of the fund or trust (as the case may be) underlying a particular issue of our structured products are delisted from the Stock Exchange or the underlying exchange (as the case may be), we may adjust the terms of that issue as further detailed in the relevant terms and conditions of our structured products.
Adjustments upon certain events affecting the company, fund, trust or the index underlying our structured products:	<p>If certain corporate events occur in connection with the company, fund or trust underlying our structured products, or if certain events have occurred which materially modify the underlying index, we may make adjustments to the terms of that issue to account for the effect of such events. Please see the relevant terms and conditions of our structured products for further details.</p> <p>These events and the possible adjustments we may make are set out in detail in the applicable terms and conditions.</p>
Early termination for illegality or impracticability:	We may early terminate our structured products due to illegality or impracticability as further detailed in the section headed “Risk Factors” in this base listing document.
Governing law:	Our structured products are governed by the laws of Hong Kong Special Administrative Region of the People’s Republic of China.

SPECIFIC FEATURES OF OUR STRUCTURED PRODUCTS

Warrants:

Warrants are structured financial products, the value of which is derived from the price or value of another asset. The underlying asset may be shares of a company, units in a fund or trust or an index.

- Cash-settled stock warrants: The underlying asset of stock warrants is shares of a company. The shares may be listed in Hong Kong or overseas.

Our cash-settled stock warrants provide for cash settlement only, which means that physical delivery of the underlying shares will not be available as a method of settlement; instead, upon the exercise of each board lot of warrants, we will pay the warrant holder a cash amount equal to (1) the product of (i) the entitlement, (ii) the difference between the average price of the underlying share and the exercise price (in the case of call warrants) or the exercise price and the average price of the underlying share (in the case of put warrants), and (iii) one board lot, and divided by (2) the number of warrant(s) per entitlement, converting such amount into the settlement currency if necessary, and in each case less any exercise expenses, so long as such amount is greater than zero.

- Cash-settled index warrants: The underlying asset of index warrants is an index published by an index compiler.

Our cash-settled index call warrant gives its holders a right upon exercise of each board lot of warrants, to receive from us a cash amount equal to (1) the product of (i) the difference between the closing level of the index on the valuation date and the predetermined strike level, (ii) one board lot, and (iii) the index currency amount and divided by (2) the divisor, converting such amount into the settlement currency if necessary and less any exercise expenses.

Our cash-settled index put warrant gives its holders a right upon exercise of each board lot of warrants, to receive from us a cash amount equal to (1) the product of (i) the difference between the predetermined strike level and the closing level of the index on valuation date, (ii) one board lot, and (iii) the index currency amount and divided by (2) the divisor, converting such amount into the settlement currency if necessary and less any exercise expenses.

The closing level of the index on the valuation date may be determined by reference to the official settlement price of an exchange traded contract relating to the index or some other means; please see the terms and conditions of our warrants for further details.

- Cash-settled warrants relating to the units of a fund or trust: The underlying asset of warrants relating to the units of a fund or trust is units of the fund or trust (as the case may be). The units may be listed in Hong Kong or overseas.

Our cash-settled warrants relating to the units of a fund or trust provide for cash settlement only, which means that physical delivery of the underlying units will not be available as a method of settlement; instead, upon the exercise of each board lot of warrants, we will pay the warrant holder a cash amount equal to (1) the product of (i) the entitlement, (ii) the difference between the average price of the underlying unit and the exercise price (in the case of call warrants) or the exercise price and the average price of underlying unit (in the case of put warrants), and (iii) one board lot, and divided by (2) the number of warrant(s) per entitlement, converting such amount into the settlement currency if necessary, and in each case less any exercise expenses, so long as such amount is greater than zero.

The master terms and conditions for each of the different types of warrants are included in Annex 1 to this base listing document. If we issue any warrants which are not cash-settled stock warrants, cash-settled index warrants or cash-settled warrants relating to the units of a fund or trust, we will include a summary of their features in the relevant supplemental listing document.

The supplemental listing document will set out the following terms specific to our warrants to supplement the applicable set of master terms and conditions in Annex 1 to this base listing document:

Board lot	Minimum number at which our warrants trade
Shares of the company	Name and par value of the underlying share (for our stock warrants only)
Company	Name of the company which issues the underlying shares (for our stock warrants only)
Fund/Trust	Name of the underlying fund or trust (for our warrants relating to the units of a fund or trust only)
Index	Name of the underlying index (for our index warrants only)
Index compiler	Name of the company that maintains the index and calculates and publishes the index levels (for our index warrants only)
Exercise price	Predetermined exercise price of the underlying share/unit (for our warrants over stock and warrants relating to the units of a fund or trust only)
Strike level	Predetermined level of the underlying index (for our index warrants only)
Closing level	The level of the underlying index for the calculation of the cash settlement amount payable upon the exercise of our warrants (for our index warrants only)
Expiry date	The date on which our warrants expire

Valuation date(s)	Date(s) on which the average price or closing level (as the case may be) of the underlying asset is determined for the calculation of the cash settlement amount upon exercise of our warrants
Entitlement	Number of shares/units to which a specified number of warrants relate (for our warrants over stock and warrants relating to the units of a fund or trust only)
Number of warrant(s) per entitlement	Number of warrants to which one entitlement relates (for our stock warrants and warrants relating to the units of a fund or trust only)
Index currency amount	An amount denominated in the currency in which the constituent stocks of the index are traded, which is used in the calculation of the cash settlement amount payable upon the exercise of our warrants (for our index warrants only)
Divisor	A predetermined amount which is used in the calculation of the cash settlement amount payable upon the exercise of a board lot of our warrants (for our index warrants only)
European style	Our warrants are European style warrants. This means that they will be automatically exercised on the expiry date
Listing date	The date on which our warrants commence trading on the Stock Exchange

CBBCs:

- CBBCs relating to a share: The underlying asset of CBBCs relating to a share is shares of a company. The shares may be listed in Hong Kong or overseas.

CBBCs relating to a share are issued either as bull CBBCs or bear CBBCs:

Bull CBBCs relating to a share

Generally for a series of bull CBBCs relating to a share, when the spot price of the underlying share as reported by the relevant exchange is at any time at or below the predetermined call price during the observation period of the CBBCs, a mandatory call event occurs and the CBBCs will terminate. If no mandatory call event occurs during the observation period then, upon expiry, for each board lot of CBBCs, we will pay the holder an amount equal to (1) the product of (i) the entitlement, (ii) the difference between the closing price of the underlying share and the strike price, and (iii) one board lot, and divided by (2) the number of CBBC(s) per entitlement, and less any exercise expenses, so long as such amount is greater than zero.

If a mandatory call event has occurred, whether or not the holder of our CBBCs may receive a residual value depends on whether the CBBCs are Category N bull CBBCs or Category R bull CBBCs.

For Category N bull CBBCs (where the call price is equal to the strike price), the holder of the CBBCs will not receive any cash payment from us upon the occurrence of the mandatory call event.

For Category R bull CBBCs (where the call price is above the strike price), the holder of each board lot of CBBCs will receive from us a residual value, which will be an amount equal to (1) the product of (i) the entitlement, (ii) the difference between the lowest spot price to which the underlying share has traded on the exchange during the MCE valuation period (as defined in the relevant terms and conditions) and the strike price, and (iii) one board lot, and divided by (2) the number of CBBC(s) per entitlement. However, if this residual value less any exercise expenses is a negative number, then no amount is payable.

Please note that during the life of a bull CBBC relating to a share, a given percentage change in the underlying share price may not result in the same percentage change (in the same direction) in the theoretical value of the CBBC. The percentage change in theoretical value of the CBBC may be greater or smaller, in the same or opposite direction. The theoretical value of the CBBC may be different from the prices available in the market. You should be aware that you may be subject to, among other risks, loss of a significant portion or the entirety of your investment in our CBBCs, which will be proportionately greater than the amount of loss you would sustain from investing the same amount directly in the underlying share, for a given change in the underlying share price. Please refer to the “Risk Factors” section of this base listing document and that of the relevant supplemental listing document.

Bear CBBCs relating to a share

Generally for a series of bear CBBCs relating to a share, when the spot price of the underlying share as reported by the relevant exchange is at any time at or above the predetermined call price during the observation period of the CBBCs, a mandatory call event occurs and the CBBCs will terminate. If no mandatory call event occurs during the observation period then, upon expiry, for each board lot of CBBCs, we will pay the holder an amount equal to (1) the product of (i) the entitlement, (ii) the difference between the strike price and the closing price of the underlying share, and (iii) one board lot, and divided by (2) the number of CBBC(s) per entitlement and less any exercise expenses, so long as such amount is greater than zero.

If a mandatory call event has occurred, whether or not the holder of our CBBCs may receive a residual value depends on whether the CBBCs are Category N bear CBBCs or Category R bear CBBCs.

For Category N bear CBBCs (where the call price is equal to the strike price), the holder of the CBBCs will not receive any cash payment from us upon the occurrence of the mandatory call event.

For Category R bear CBBCs (where the call price is below the strike price), the holder of each board lot of CBBCs will receive from us a residual value, which will be an amount equal to (1) the product of (i) the entitlement, (ii) the difference between the strike price and the highest spot price to which the underlying share has traded on the exchange during the MCE valuation period (as defined in the relevant terms and conditions), and (iii) one board lot, and divided by (2) the number of CBBC(s) per entitlement. However, if this residual value less any exercise expenses is a negative number, then no amount is payable.

Please note that during the life of a bear CBBC relating to a share, a given percentage change in the underlying share price may not result in the same percentage change (in the opposite direction) in the theoretical value of the CBBC. The percentage change in theoretical value of the CBBC may be greater or smaller, in the same or opposite direction. The theoretical value of the CBBC may be different from the prices available in the market. You should be aware that you may be subject to, among other risks, loss of a significant portion or the entirety of your investment in our CBBCs, which will be proportionately greater than the amount of loss you would sustain from investing in the same amount directly in the underlying share, for a given change in the underlying share price. Please refer to the “Risk Factors” section of this base listing document and that of the relevant supplemental listing document.

For both our bull CBBCs and bear CBBCs relating to a share, the closing price of an underlying share will be determined by reference to the market closing price on the valuation date. Please see the terms and conditions of our CBBCs for further details.

- CBBCs relating to an index: The underlying asset of CBBCs relating to an index is an index published by an index compiler.

CBBCs relating to an index are issued either as bull CBBCs or bear CBBCs:

Bull CBBCs relating to an index

Generally for a series of bull CBBCs relating to an index, when the level of the underlying index as published by the index compiler is at any time at or below the predetermined call level during the observation period of the CBBCs, a mandatory call event occurs and the CBBCs will terminate. If no mandatory call event occurs during the observation period then, upon the expiry of a CBBC, for each board lot of CBBCs, we will pay the holder an amount equal to (1) the product of (i) the difference between the closing level of the underlying index and the strike level, (ii) one board lot, and (iii) the index currency amount, and divided by (2) the divisor, and less any exercise expenses.

If a mandatory call event has occurred, whether or not the holder of our CBBCs may receive a residual value depends on whether the CBBCs are Category N bull CBBCs or Category R bull CBBCs.

For Category N bull CBBCs (where the call level is equal to the strike level), the holder of the CBBCs will not receive any cash payment from us upon the occurrence of the mandatory call event.

For Category R bull CBBCs (where the call level is above the strike level), the holder of each board lot of CBBCs will receive from us a residual value, which will be an amount equal to (1) the product of (i) the difference between the lowest spot level of the underlying index as published by the index compiler during the MCE valuation period (as defined in the relevant terms and conditions) and the strike level, (ii) one board lot, and (iii) the index currency amount, and divided by (2) the divisor. However, if this residual value less any exercise expenses is a negative number, then no amount is payable.

Please note that during the life of a bull CBBC relating to an index, a given percentage change in the underlying index level may not result in the same percentage change (in the same direction) in the theoretical value of the CBBC. The percentage change in theoretical value of the CBBC may be greater or smaller, in the same or opposite direction. The theoretical value of the CBBC may be different from the prices available in the market. You should be aware that you may be subject to, among other risks, loss of a significant portion or the entirety of your investment in our CBBCs, which will be proportionately greater than the amount of loss you would sustain from investing the same amount directly in the index, for a given change in the index level. Please refer to the “Risk Factors” section of this base listing document and that of the relevant supplemental listing document.

Bear CBBCs relating to an index

Generally for a series of bear CBBCs relating to an index, when the level of the underlying index as published by the index compiler is at any time at or above the predetermined call level during the observation period of the CBBCs, a mandatory call event occurs and the CBBCs will terminate. If no mandatory call event occurs during the observation period then, upon the expiry of a CBBC, for each board lot of CBBCs, we will pay the holder an amount equal to (1) the product of (i) the difference between the strike level and the closing level of the underlying index, (ii) one board lot, and (iii) the index currency amount, and divided by (2) the divisor, and less any exercise expenses.

If a mandatory call event has occurred, whether or not the holder of our CBBCs may receive a residual value depends on whether the CBBCs are Category N bear CBBCs or Category R bear CBBCs.

For Category N bear CBBCs (where the call level is equal to the strike level), the holder of the CBBCs will not receive any cash payment from us upon the occurrence of the mandatory call event.

For Category R bear CBBCs (where the call level is below the strike level), the holder of each board lot of CBBCs will receive from us a residual value, which will be an amount equal to (1) the product of (i) the difference between the strike level and the highest spot level of the underlying index as published by the index compiler during the MCE valuation period (as defined in the relevant terms and conditions), (ii) one board lot, and (iii) the index currency amount, and divided by (2) the divisor. However, if this residual value less any exercise expenses is a negative number, then no amount is payable.

Please note that during the life of a bear CBBC relating to an index, a given percentage change in the underlying index level may not result in the same percentage change (in the opposite direction) in the theoretical value of the CBBC. The percentage change in theoretical value of the CBBC may be greater or smaller, in the same or opposite direction. The theoretical value of the CBBC may be different from the prices available in the market. You should be aware that you may be subject to, among other risks, loss of a significant portion or the entirety of your investment in our CBBCs, which will be proportionately greater than the amount of loss you would sustain from investing the same amount directly in the index, for a given change in the index level. Please refer to the “Risk Factors” section of this base listing document and that of the relevant supplemental listing document.

For both our bull CBBCs and bear CBBCs relating to an index, the closing level of the index will be determined by reference to the index level calculated for the purpose of final settlement of the applicable futures contract specified in the relevant supplemental listing document. Please see the terms and conditions of our CBBCs for further details.

- CBBCs relating to the units of a fund or trust:

The underlying asset of CBBCs relating to the units of a fund or trust is units of the fund or trust (as the case may be).

CBBCs relating to the units of a fund or trust are issued as either bull CBBCs or bear CBBCs:

Bull CBBCs relating to the units of a fund or trust

Generally for a series of bull CBBCs relating to the units of a fund or trust, when the spot price of the underlying unit as reported by the relevant exchange is at any time at or below the predetermined call price during the observation period of the CBBCs, a mandatory call event occurs and the CBBCs will terminate. If no mandatory call event occurs during the observation period then, upon expiry, for each board lot of CBBCs, we will pay the holder an amount equal to (1) the product of (i) the entitlement, (ii) the difference between the closing price of the underlying unit and the strike price, and (iii) one board lot, and divided by (2) the number of CBBC(s) per entitlement, and less any exercise expenses, so long as such amount is greater than zero.

If a mandatory call event has occurred, whether or not the holder of our CBBCs may receive a residual value depends on whether the CBBCs are Category N bull CBBCs or Category R bull CBBCs.

For Category N bull CBBCs (where the call price is equal to the strike price), the holder of the CBBCs will not receive any cash payment from us upon the occurrence of the mandatory call event.

For Category R bull CBBCs (where the call price is above the strike price), the holder of each board lot of CBBCs will receive from us a residual value, which will be an amount equal to (1) the product of (i) the entitlement, (ii) the difference between the lowest spot price to which the underlying unit has traded on the exchange during the MCE valuation period (as defined in the relevant terms and conditions) and the strike price, and (iii) one board lot, and divided by (2) the number of CBBC(s) per entitlement. However, if this residual value less any exercise expenses is a negative number, then no amount is payable.

Please note that during the life of a bull CBBC relating to the units of a fund or trust, a given percentage change in the underlying unit price may not result in the same percentage change (in the same direction) in the theoretical value of the CBBC. The percentage change in theoretical value of the CBBC may be greater or smaller, in the same or opposite direction. The theoretical value of the CBBC may be different from the prices available in the market. You should be aware that you may be subject to, among other risks, loss of a significant portion or the entirety of your investment in our CBBCs, which will be proportionately greater than the amount of loss you would sustain from investing in the same amount directly in the underlying unit, for a given change in the underlying unit price. Please refer to the “Risk Factors” section of this base listing document and the relevant supplemental listing document.

Bear CBBCs relating to the units of a fund or trust

Generally for a series of bear CBBCs relating to the units of a fund or trust, when the spot price of the underlying unit as reported by the relevant exchange is at any time at or above the predetermined call price during the observation period of the CBBCs, a mandatory call event occurs and the CBBCs will terminate. If no mandatory call event occurs during the observation period then, upon expiry, for each board lot of CBBCs, we will pay the holder an amount equal to (1) the product of (i) the entitlement, (ii) the difference between the strike price and the closing price of the underlying unit, and (iii) one board lot, and divided by (2) the number of CBBC(s) per entitlement, and less any exercise expenses, so long as such amount is greater than zero.

If a mandatory call event has occurred, whether or not the holder of our CBBCs may receive a residual value depends on whether the CBBCs are Category N bear CBBCs or Category R bear CBBCs.

For Category N bear CBBCs (where the call price is equal to the strike price), the holder of the CBBCs will not receive any cash payment from us upon the occurrence of the mandatory call event.

For Category R bear CBBCs (where the call price is below the strike price), the holder of each board lot of CBBCs will receive from us a residual value, which will be an amount equal to (1) the product of (i) the entitlement, (ii) the difference between the strike price and the highest spot price to which the underlying unit has traded on the exchange during the MCE valuation period (as defined in the relevant terms and conditions), and (iii) one board lot, and divided by (2) the number of CBBC(s) per entitlement. However, if this residual value less any exercise expenses is a negative number, then no amount is payable.

Please note that during the life of a bear CBBC relating to the units of a fund or trust, a given percentage change in the underlying unit price may not result in the same percentage change (in the opposite direction) in the theoretical value of the CBBC. The percentage change in theoretical value of the CBBC may be greater or smaller, in the same or opposite direction. The theoretical value of the CBBC may be different from the prices available in the market. You should be aware that you may be subject to, among other risks, loss of a significant portion or the entirety of your investment in our CBBCs, which will be proportionately greater than the amount of loss you would sustain from investing the same amount directly in the underlying unit, for a given change in the underlying unit price. Please refer to the “Risk Factors” section of this base listing document and the relevant supplemental listing document.

For both our bull CBBCs and bear CBBCs relating to the units of a fund or trust, the closing price of an underlying unit will be determined by reference to the market closing price on the valuation date. Please see the terms and conditions of our CBBCs for further details.

The supplemental listing document will set out the following terms specific to our CBBCs to supplement the applicable set of master terms and conditions in Annex 2 to this base listing document:

Category	The category of our CBBCs: Category N or Category R, bull or bear
Board lot	Minimum number at which our CBBCs trade
Shares of the company	Name and par value of the underlying share (for our CBBCs relating to a share only)
Company	Name of the company which issues the underlying shares (for our CBBCs relating to a share only)
Fund/Trust	Name of the underlying fund or trust (for our CBBCs relating to the units of a fund or trust only)
Index	Name of the underlying index (for our CBBCs relating to an index only)

Index compiler	Name of the company that maintains the index and calculates and publishes the index levels (for our CBBCs relating to an index only)
Call price	Predetermined call price of the underlying share/unit (for our CBBCs relating to a share and our CBBCs relating to the units of a fund or trust only)
Strike price	Predetermined strike price of the underlying share/unit (for our CBBCs relating to a share and our CBBCs relating to the units of a fund or trust only)
Call level	Predetermined call level of the underlying index (for our CBBCs relating to an index only)
Strike level	Predetermined strike level of the underlying index (for our CBBCs relating to an index only)
Divisor	A predetermined amount which is used in the calculation of the cash settlement amount (if any) payable upon the occurrence of a mandatory call event or automatic exercise on expiry (for our CBBCs relating to an index only)
Expiry date	The date on which our CBBCs expire
Valuation date	Date on which the closing price or the closing level of the underlying asset is determined for calculation of the cash settlement amount upon automatic exercise on expiry
Entitlement	Number of shares/units to which a specified number of CBBCs relates (for our CBBCs relating to a share and our CBBCs relating to the units of a fund or trust only)
Number of CBBC(s) per Entitlement	Number of CBBCs to which one entitlement relates (for our CBBCs relating to a share and our CBBCs relating to the units of a fund or trust only)
Index currency amount	An amount denominated in the currency in which the constituent stocks of the index are traded, which is used in the calculation of the cash settlement amount (if any) payable upon the occurrence of a mandatory call event or automatic exercise on expiry (for our CBBCs relating to an index only)
Observation commencement date	The date on which the observation period commences
Observation period	The period from and including the observation commencement date to and including the trading day immediately preceding the expiry date
Listing date	The date on which our CBBCs commence trading on the Stock Exchange
Trading day	Any day on which the Stock Exchange is scheduled to open for trading for its regular trading sessions

MORE INFORMATION ABOUT OUR STRUCTURED PRODUCTS AND OUR LISTING DOCUMENTS

WHAT ARE THE LISTING DOCUMENTS?

The listing documents consist of this base listing document (including its addendum, if any) and for each series of our structured products, its supplemental listing document. If the information in this base listing document needs to be updated, we will either include the updated information in the relevant supplemental listing document or publish an addendum to this base listing document.

None of the listing documents constitutes an offer, advertisement, recommendation or invitation to the public to subscribe for or to acquire any structured products.

IS THERE ANY GUARANTEE OR COLLATERAL FOR OUR STRUCTURED PRODUCTS?

No. Our obligations under our structured products are neither guaranteed by any third party, nor collateralised with any of our assets or other collateral. When you purchase our structured products, you are relying on our creditworthiness only, and of no other person. If we become insolvent or default on our obligations under the structured products, you can only claim as an unsecured creditor of the Issuer. In such event, you may not be able to recover all or even part of the amount due under our structured products (if any).

WHO IS RESPONSIBLE FOR THE LISTING DOCUMENTS?

We accept full responsibility for the accuracy of the information contained in the listing documents.

We have included references to one or more websites in this base listing document and we may include references to one or more websites (including any third party websites) in the relevant supplemental listing document for each series of structured products to guide you to sources of freely available information. The information on these websites does not form part of our listing document. We are not responsible

for information on these websites. Such information has not been prepared for the purposes of our structured products.

Our base listing document is accurate at the date stated on the cover. You must not assume, however, that information in this base listing document is accurate at any time after the date of this base listing document.

Neither the sponsor nor the liquidity provider is responsible in any way for ensuring the accuracy of our listing documents.

WHAT ARE OUR CREDIT RATINGS?

Our long-term credit ratings (as of the day immediately preceding the date of this base listing document) are as set out on page 1 of this base listing document.

Rating agencies usually receive a fee from the companies that they rate.

When evaluating our creditworthiness, you should not solely rely on our credit ratings because:

- a credit rating is not a recommendation to buy, sell or hold the structured products;
- ratings of companies may involve difficult-to-quantify factors such as market competition, the success or failure of new products and markets and managerial competence; and
- a high credit rating is not necessarily indicative of low risk. Our credit ratings as of the day immediately preceding the date of this base listing document are for reference only. Any downgrading of our ratings could result in a reduction in the value of the structured products.

The structured products are not rated.

The Issuer's credit ratings are subject to change or withdrawal at any time within each rating agency's sole discretion. You should conduct

your own research using publicly available sources to obtain the latest information with respect to the Issuer's ratings from time to time.

IS THE ISSUER REGULATED BY THE HONG KONG MONETARY AUTHORITY REFERRED TO IN RULE 15A.13(2) OR THE SECURITIES AND FUTURES COMMISSION ("SFC") REFERRED TO IN RULE 15A.13(3)?

We are regulated by the Hong Kong Monetary Authority as a licensed bank. We are also regulated by the United Kingdom Financial Conduct Authority and the Prudential Regulation Authority.

WHERE CAN I FIND MORE INFORMATION ABOUT THE ISSUER AND THE STRUCTURED PRODUCTS?

Information on us and our structured products is described in the listing documents.

Please read the listing documents carefully before you decide whether to buy our structured products.

Additional and more up-to-date information about us may be available on the website www.standardchartered.com. You are cautioned that this information (if available) will be of a general nature and cannot be relied upon as being accurate and/or correct and will not have been prepared exclusively for the purposes of our structured products.

We have not authorised anyone to give you any information about our structured products other than the information in the listing documents.

WHEN WERE THE STRUCTURED PRODUCTS AUTHORISED?

The issue of our structured products was authorised on 26 March 2013.

WHERE CAN I READ COPIES OF THE ISSUER'S DOCUMENTATION?

You can read copies of the documents set out below by going to the offices of Standard Chartered Bank (Hong Kong) Limited at 15th Floor, Two International Finance Centre, 8 Finance Street, Central, Hong Kong. These

offices are open only during normal business hours and not on Saturdays, Sundays or public holidays in Hong Kong.

These are the documents, copies of which may be inspected upon request while any of our structured products are outstanding:

- Royal Charter, Bye-Laws and Rules of SCB;
- our 2012 annual report which contains the financial statements of SCB and its subsidiaries ("**SCB Group**") for the year ended 31 December 2012;
- as they become available, the unaudited interim consolidated accounts of SCB Group;
- the letter from our auditors, KPMG Audit Plc, consenting to the reproduction of their reports in this base listing document;
- the instrument executed by us by way of deed poll on 25 June 2010 pertaining to the issue of our structured products (the "**Instrument**"); and
- this base listing document (and its addendum, if any) and the relevant supplemental listing document for a series of our structured products as long as the structured products are listed on the Stock Exchange (together with a Chinese translation of each of these documents).

A reasonable fee will be charged if you want to take photocopies of any of the documents while they are on display.

DEALING IN THE STRUCTURED PRODUCTS

Settlement of transactions between members of the Stock Exchange on any business day must take place on or before the second CCASS settlement day (as defined in the General Rules of CCASS and the CCASS Operational Procedures in effect from time to time) thereafter. Securities executed on the Stock Exchange would normally be settled under the continuous net settlement system in CCASS. Dealings in the structured products will take place in relevant board lots in the relevant

settlement currency. For further details on transfers of the structured products and their exercise or settlement, please see the terms and conditions of the relevant series of the structured products.

DO I HAVE TO PAY STAMP DUTY OR OTHER LEVIES ON THE STRUCTURED PRODUCTS?

There is no Hong Kong stamp duty on the issue or transfer of our cash-settled structured products. The levy for the investor compensation fund is currently suspended.

However, the SFC charges a transaction levy at the rate of 0.003 per cent. on the value of the transaction of the structured products and this amount is payable by each of the buyer and seller. Additionally, the Stock Exchange charges a trading fee on every purchase and sale of listed securities calculated at a rate of 0.005 per cent. of the amount of the transaction and is payable by each of the buyer and seller.

You should be aware that you may be required to pay stamp taxes or other documentary charges in accordance with the laws and practices of the country where the structured products are transferred. If you are in any doubt as to your tax position, you should consult your own independent tax advisers. You should also be aware that tax regulations and their application by the relevant taxation authorities change from time to time.

HOW DO I HOLD MY STRUCTURED PRODUCTS?

Our structured products will be issued in global registered form, represented by a global certificate registered in the name of HKSCC Nominees Limited (or its successors) or another nominee of Hong Kong Securities Clearing Company Limited.

We will make all necessary arrangements to enable our structured products to be admitted for deposit, clearing and settlement in CCASS. We will not issue any definitive certificates for our structured products. Our structured products will be deposited within CCASS.

If you are a CCASS investor participant, you may hold your structured products in your account with CCASS. If you do not have a CCASS account, your broker or agent (as a CCASS participant) will arrange to hold your structured products for you in an account at CCASS. We will make all payments on our structured products to CCASS: you will have to check your CCASS account or rely on your broker to ensure that payments on your structured products are credited to your account with your broker. Once we have made the relevant payments in this way to CCASS, we will have no further obligations for that payment, even if CCASS or your broker fails to transmit to you your share of the payment or if it was transmitted late. Any notices we give in relation to our structured products will be given in the same way: you will have to rely on CCASS and/or your broker to ensure that those notices reach you.

RISK FACTORS

You should carefully consider the following information together with the other information contained in the listing documents (including the relevant supplemental listing document) before purchasing any of our structured products.

This section highlights the Issuer's considered assessment of the risks of dealing in the structured products. Their inclusion in this base listing document does not mean these are the only significant or relevant risks of dealing in our structured products.

1 Non-collateralised structured products; you must rely on our creditworthiness; our obligations are not deposit liability or debt obligations

Our structured products are not secured on any of our assets or any collateral. Our structured products represent our general contractual obligations and will rank equally with our other general unsecured obligations. The number of structured products outstanding at any given time may be substantial. When purchasing our structured products, you will be relying upon our creditworthiness alone, and not that of anyone else. There is no assurance of protection against a default by us in respect of our obligations under the structured products. If we become insolvent or default on our obligations under the structured products, you can only claim as our unsecured creditor regardless of the performance of the underlying asset and you may not be able to recover all or even part of the amount due under the structured products (if any). We do not intend to create upon ourselves a deposit liability or a debt obligation by issue of any structured products.

2 Our structured products are not rated

The Issuer's credit ratings are subject to change or withdrawal at any time within each rating agency's sole discretion. You should conduct your own research using publicly available sources to obtain the latest information with respect to the Issuer's ratings from time to time.

3 There are risks associated with investing in our structured products

Our structured products are structured financial instruments, their value may fall as rapidly as they may rise and you may sustain a total loss in your investment. Your investment in our structured products involves risks. Before investing in any of our structured products, you should consider whether our structured products are suitable for you in light of your own financial circumstances and investment objectives. Not all of these risks are described in this base listing document or a supplemental listing document. You should consider taking independent professional advice prior to making an investment in our structured products.

4 Structured products are complex and volatile instruments

Your investment in our structured products will be worthless if you are holding our structured products when they expire out-of-the-money – meaning that the closing price or level of the underlying asset, determined in accordance with the terms and conditions of our structured products, is greater (for our put warrants or bear CBBCs) or less (for our call warrants or bull CBBCs) than the exercise/strike price or strike level (as the case may be) of our structured products.

Our structured products are complex instruments and their values at any time prior to expiry are governed by a number of factors, including but not limited to the time left until expiry, the price or level of the underlying asset compared with the exercise/strike price/level or call price/level (in the case of our CBBCs) of our structured products, the value and volatility of price or level of the underlying asset, market interest rate movements, our financial condition and the market's view of our credit quality. The values of our structured products may rise or fall rapidly over a short time due to changes in one or more factors. The interplay of these different factors also means that the

effect on the value of our structured products from the change in one factor may offset or accentuate the effect from the change in another factor. The value or level of the underlying assets (and some of the other relevant factors) can also be unpredictable: it may change suddenly and in large magnitude or not change at all. You may risk losing your entire investment if the price or level of the underlying assets do not move in your anticipated direction. You should also note that, assuming all other factors are held constant, the value of structured products will decline over time.

The cash settlement amount of our structured products if calculated at any time prior to expiry may typically be less than the market price of such structured products at that time. The difference will reflect, among other things, a “time value” for the structured products which depends on a number of interrelated factors including those specified above.

5 Your ability to realise your investment in our structured products is dependent on the trading market for our structured products

As our structured products are not exercisable prior to the expiry date, the only way you may be able to realise the value of your investment in our structured products is to dispose of them in either the on-exchange market or over-the-counter market. If you dispose of your investment in our structured products before expiry in this way, the amount you will receive will depend on the price you are able to obtain from the market for our structured products. That price may depend on the quantity of our structured products you are trying to sell. The market price of our structured products may not be equal to the value of our structured products, and changes in the price of our structured products may not correspond (in direction and/or magnitude) with changes in the value of our structured products.

While we have appointed, or will appoint, a liquidity provider for the purposes of making a market for each series of our structured products, there may be circumstances outside our control where the appointed liquidity provider’s ability to make a market in some or all series of our structured products is limited, restricted and/or, without limitation, frustrated. The more limited the secondary market, the more difficult it may be for you to realise the value of our structured products prior to expiry. You should refer to the section regarding liquidity provider in the relevant supplemental listing document for further details. The prices provided by our liquidity provider are influenced by, among other things, the supply and demand of our structured products for a particular series in the market, and may not correspond with the values of such structured products or changes in such values.

You should note that the prices available in the market for our structured products may also come from other participants in the market, although we cannot predict if and to what extent a secondary market may develop for our structured products or whether that market will be liquid or illiquid. The fact that a particular series of structured products is listed does not necessarily lead to greater liquidity. In addition, no assurance can be given that the listing of any particular series of our structured products will be maintained. If our structured products of a particular series cease to be listed, they will not be transacted through the Stock Exchange, and they may even be terminated early. Off-exchange transactions may involve greater risks than on-exchange transactions. You may be unable to find any buyer for your holdings of our structured products on the Stock Exchange if the value of the structured products falls below HK\$0.01.

The liquidity of any series of our structured products may also be affected by restrictions on offers and sales of our structured products in some jurisdictions including the restrictions described in Annex 3 “Purchase and Sale” to this base listing document.

If trading in the underlying asset is suspended for whatever reason on the market on which they are listed or dealt in (including the Stock Exchange), trading in our structured products will also be suspended for a similar period. The value of our structured products will decrease over time as the length of the period remaining to expiration becomes shorter. You should note that in the

case of a prolonged suspension period, the market price of our structured products will be subject to a significant impact of time decay of such prolonged suspension period and may fluctuate significantly upon resumption of trading after the suspension period of our structured products. This may adversely affect your investment in our structured products.

In view of the limited trading market of our structured products, you may need to hold our structured products until expiry.

6 *You have no rights in the underlying assets and the market price for our structured products may fluctuate differently from that of the underlying assets*

Our structured products are financial instruments issued by us and are separate from the underlying assets. You have no rights under our structured products against (i) any company, trust or fund which issues or comprises the underlying assets of the relevant series of our structured products or (ii) the trustee or the manager of any underlying asset that is a trust or a fund or (iii) the compiler of any underlying asset that is an index. In addition, buying our structured products is not the same as buying the underlying assets or having a direct investment in the underlying assets or shares comprising any underlying asset that is an index. You will not be entitled to have voting rights, rights to receive dividends or distributions or any other rights under the underlying asset or shares comprising any underlying asset that is an index. As mentioned, there are many factors influencing the value and/or market price of our structured products, which are leveraged instruments. For example, increases in the price or level of the underlying assets may not lead to an increase in the value and/or market price of our call warrants or bull CBBCs by a proportionate amount or even any increase at all; however, a decrease in the price or level of the underlying assets may lead to a greater than proportionate decrease in the value and/or market price of our call warrants or bull CBBCs. There is no assurance that a change in value and/or market price of our structured products will correspond in direction and/or magnitude with the change in price or level of the underlying assets. You should recognise the complexities of utilising our structured products to hedge against the market risk associated with investing in an underlying asset or shares comprising any underlying asset that is an index.

Unless otherwise specified, the Issuer, the trustee, the manager or the sponsor of the underlying assets will have no involvement in the offer and sale of our structured products and no obligation to you as investors of our structured products. The decisions made by them on corporate actions, such as a merger or sale of assets, or adjustment of the method for calculation of an index may also have adverse impact on the value and/or market price of our structured products.

7 *There could be conflicts of interest arising out of our other activities which may affect our structured products*

We and any of our subsidiaries and affiliates may engage in transactions (whether for our or their own accounts, including hedging, or trading for accounts under management or otherwise) involving, as well as provide investment banking and other services to, any company or to any trustee or manager of a trust or a fund underlying our structured products or their securities and may enter into transactions with the substantial shareholders of the underlying company. Those transactions may have a positive or negative impact on the price or level of the underlying asset and in turn the value and/or market price of our structured products.

For example, in the case of CBBCs, these transactions may result in the price or level of the underlying asset moving closer to, or even reaching or going beyond the call price or call level of our CBBCs thus causing a mandatory call event. These transactions may also influence the price or level of the underlying asset after the occurrence of the mandatory call event and adversely impact on the residual value payable (if any, for a category R CBBC). The mandatory call event may be triggered by a single trade in the underlying asset, regardless of the size of the trade. In addition, the unwinding of hedges at any time on or after the occurrence of a mandatory call event may

affect the price or level of the underlying asset and consequently affect the cash settlement amount of our CBBs. We and any of our subsidiaries and affiliates may have officers who serve as directors of the company underlying our structured products. Our own trading activities (which include hedging of our structured products) in the underlying securities or related structured products may affect the value and/or market price of the structured products. We may issue other competing financial products which may affect the value and/or market price of our structured products. You should also note that potential conflicts of interest may arise from the different roles played by us and any of our subsidiaries and affiliates in connection with our structured products and the economic interests in each role may be adverse to your interests in our structured products. However, we maintain regulatorily required information barriers between our different business areas as well as regulatorily required policies and procedures designed to minimise and manage such potential and actual conflicts of interest to comply with applicable laws and regulations, and to ensure our transactions and/or dealings in respect of our structured products will be transacted at arm's length.

8 *We may early terminate our structured products due to illegality or impracticability*

If we determine in good faith and in a commercially reasonable manner that, for reasons beyond our control, it has become or it will become illegal or impracticable: (i) for us to perform our obligations under any structured products in whole or in part; or (ii) for us or any of our affiliates to maintain our or their hedging arrangements with respect to the structured products, we may decide to terminate that series of structured products early. If this happens, we will, if and to the extent permitted by the applicable law or regulation, pay to each holder of those structured products a cash amount determined by us in good faith and in a commercially reasonable manner to be the fair market value of the structured products immediately prior to such termination (ignoring such illegality or impracticability) less our cost of unwinding any related hedging arrangement as determined by us in our sole and absolute discretion. Such amount may be substantially less than your initial investment and may be zero.

9 *Structured products relating to an index involve valuation risks*

You should note that, in the case of structured products relating to an index, an investment involves valuation risks in relation to the index. The level of the index may vary over time and may increase or decrease due to various factors including changes in the formula for or the method of calculating the index. In addition, a level for the index may be published by the index compiler at a time when one or more securities comprising the index are not trading. If this occurs on the valuation date and there is no market disruption event called under the terms of the relevant structured products, then the value of such securities used in calculating the closing level of the index will not be their up-to-date market price. Certain (but not all) events relating to the index underlying our structured products require or, as the case may be, permit us to make certain adjustments or amendments to the conditions (including, but not limited to, determining the level of the index). However, we are not required to make an adjustment for every event that can affect the index. If an event occurs that does not require us to adjust the terms and conditions, the market price of our structured products and the return upon mandatory call event or expiry of our structured products may be affected.

10 *Risks associated with our structured products relating to the units of a fund or trust*

For our structured products relating to the units of a fund or trust, neither we nor any of our affiliates have the ability to control or predict the actions of the trustee or the manager of the fund or trust. Neither the trustee nor the manager of the fund or trust (i) is involved in the offer of any structured products in any way, or (ii) has any obligation to consider the interest of the holders of any structured products in taking any corporate actions that might affect the value of any structured products. We have no role in the fund or trust. The trustee or the manager of the fund or trust is responsible for making investment and other trading decisions with respect to the management of

the fund or trust consistent with its investment objectives and in compliance with the investment restrictions as set out in the constitutive documents of the fund or trust. The manner in which the fund or trust is managed and the timing of actions may have a significant impact on the performance of the units. Hence, the price which is used to calculate the performance of the units is also subject to these risks.

You should note that our structured products relating to the units of a fund or trust reference the units of the fund or trust and the cash settlement amount payable upon exercise will be calculated using the official closing prices of the units on the underlying exchange on the valuation dates. If the fund or trust is designed to track the performance of an index, you should note that our structured products do not reference the index tracked by the fund or trust. Changes in the price of the units on the underlying exchange may not correspond with changes in the level of such index, and such price at any given time may differ from the net asset value per unit of the fund or trust.

There is also a risk that the investment objectives and/or investment restrictions as set out in the constitutive documents of the fund or trust are materially changed or are not complied with or the method of calculating the net asset value of the fund or trust is materially changed. In addition, the applicable laws and regulations governing the fund or trust may also restrict the operations of the fund or trust and restrict its ability to achieve the investment objectives.

For our structured products relating to the units of an exchange traded fund (“ETF”), you should note that (i) an ETF is exposed to the economic, political, currency, legal and other risks of a specific sector or market related to the underlying asset pool or index or market that the ETF is designed to track; (ii) there may be disparity between the performance of the ETF and the performance of the underlying asset pool or index or market that the ETF is designed to track as a result of, for example, failure of the tracking strategy, currency differences, fees and expenses; and (iii) where the underlying asset pool or index or market that the ETF tracks is subject to restricted access, the efficiency in the unit creation or redemption to keep the price of the ETF in line with its net asset value may be disrupted, causing the ETF to trade at a higher premium or discount to its net asset value. Hence, the market price of the structured products will also be indirectly subject to these risks.

Additionally, where the underlying asset of structured products comprises the units of an ETF adopting a synthetic replication investment strategy to achieve its investment objectives by investing in financial derivative instruments linked to the performance of an underlying asset pool or index that the ETF is designed to track (“**Synthetic ETF**”), you should note that (i) investments in financial derivative instruments will expose the Synthetic ETF to the credit, potential contagion and concentration risks of the counterparties who issued such financial derivative instruments. As such counterparties are predominantly international financial institutions, the failure of one such counterparty may have a negative effect on the other counterparties of the Synthetic ETF. Even if the Synthetic ETF has collateral to reduce the counterparty risk, there may still be a risk that the market value of the collateral has fallen substantially when the Synthetic ETF seeks to realise the collateral; and (ii) the Synthetic ETF may be exposed to higher liquidity risk if the Synthetic ETF invests in financial derivative instruments which do not have an active secondary market. Accordingly, by investing in the structured products you are also exposed to the credit risk of the counterparties who issued the derivatives in addition to the risks associated with the underlying index the performance of which the Synthetic ETF is designed to replicate.

You should note that the above risks may have a significant impact on the performance of the relevant ETF or Synthetic ETF and hence the market price of our structured products linked to such ETF or Synthetic ETF.

11 Liquidation of underlying company or termination of underlying trust or fund

In the event of liquidation, dissolution, winding up or termination of the company, trust or fund that issues the underlying shares or units or the appointment of a receiver or administrator or analogous person to the company, trust or fund, the relevant structured products shall lapse.

12 Time lag between the time of exercise or the occurrence of a mandatory call event (in the case of CBBCs) and the time of determination of the cash settlement amount may affect the cash settlement amount

There may be a time lag between the time or date when our structured products are automatically exercised; or (in the case of our CBBCs only) when a mandatory call event occurs and the time of determination of the cash settlement amount payable to the investors. Such delay could be significantly longer in the case of a market disruption event, delisting of the company that issues the underlying assets or shares comprising any underlying asset that is an index, termination of the trust or fund that issues the underlying unit or other adjustment events. The cash settlement amount may change significantly during any such period and may result in such cash settlement amount being zero.

13 We may adjust the terms and conditions of our structured products upon the occurrence of certain corporate events or extraordinary events affecting the underlying assets

We may determine that certain corporate events or extraordinary events affecting the underlying assets have occurred and may make corresponding adjustments to the terms and conditions of our structured products, including adjustments to the value or level of the underlying assets or changing the composition of the underlying assets. Such events and/or adjustments (if any) may have adverse impact on the value and/or market price of our structured products. We may also in our sole discretion adjust the entitlement of our structured products for dilution events such as stock splits and stock dividends.

However, we have no obligation to make an adjustment for every event that can affect the underlying asset. The value and/or market price of our structured products may be adversely affected by such events in the absence of an adjustment by us. If adjustments were made, we do not assure that such adjustments can negate any adverse impact of such events on the value and/or market price of our structured products.

14 We may modify the terms and conditions of our structured products

We may, without your consent, modify the terms and conditions applicable to our structured products if such modification is: (i) not materially prejudicial to your interests; (ii) of a formal, minor or technical nature; (iii) made to correct a manifest error; or (iv) necessary in order to comply with mandatory provision(s) of the laws or regulations of Hong Kong.

15 Our determination of the occurrence of a market or settlement disruption event may affect the value and/or market price of our structured products

We may determine that a market or settlement disruption event has occurred. Such determination may affect the value and/or market price of our structured products, and may delay settlement in respect of our structured products.

If we determine that a market disruption event exists, the valuation of the underlying assets for the purpose of calculating the cash settlement amount of our structured products may be postponed. Under certain circumstances, we may determine the good faith estimate of the value or level of the underlying assets that would have prevailed on the relevant valuation date or postponed valuation date (as the case may be) but for such market disruption event.

16 The implied volatility of our structured products may not reflect the actual volatility of the underlying asset

The market price of our structured products is determined among other factors by the supply and demand of the structured products. This price “implies” a level of volatility in the underlying asset in the sense that such level of volatility would give a theoretical value for the structured product which is equal to that price; but such level of volatility may not be equal to the actual level of volatility of the underlying asset in the past or future.

The implied volatility of our structured products may change without notice throughout the life of our structured products.

17 Investment in our structured products may involve exchange rate risks and interest rate risks

An investment in our structured products may involve exchange rate risks. For example, the underlying asset may be denominated in a currency other than that of our structured products, our structured products may be denominated in a currency other than the currency of your home jurisdiction and our structured products may settle in a currency other than the currency in which you wish to receive funds. Changes in the exchange rate(s) between the currency of the underlying asset, the currency in which our structured products settle and/or the currency of your home jurisdiction may adversely affect the return of your investment in our structured products. We cannot assure that exchange rates on the issue date of our structured products will be representative of the future exchange rates used in computing the value of our structured products. Fluctuations in exchange rates may therefore affect the value of our structured products.

An investment in our structured products may also involve interest rate risk as the intrinsic value of a structured product may be sensitive to fluctuations in interest rates. Fluctuations in the short term or long term interest rates of the currency in which our structured products are settled or the currency in which the underlying asset is denominated may affect the value and/or market price of our structured products.

18 Please consult your tax advisers if you are in any doubt about your tax position

You may be required to pay stamp taxes or other documentary charges in accordance with the laws and practices of the country where our structured products are transferred and such laws and practices may change from time to time. If you are in any doubt about your tax position, you should consult your own independent tax advisers.

19 Our structured products are issued in global registered form; you have to rely on your brokers to evidence title to your investment and to receive notices and the cash settlement amount

Our structured products are issued in global registered form and held on your behalf within a clearing system. This means that evidence of title to your interests, as well as the efficiency of ultimate delivery of the cash settlement amount, will be governed by the CCASS Rules.

Our structured products in global registered form will be registered in the name of HKSCC Nominees Limited (or its successors) or another nominee of Hong Kong Securities Clearing Company Limited, which shall be treated by us as the holder of our structured products for all purposes. This means that you will not receive definitive certificates and the register will record at all times that our structured products are being held by HKSCC Nominees Limited (or its successors) or another nominee of Hong Kong Securities Clearing Company Limited. You will have to rely solely upon your brokers and the statements received from your brokers to evidence title to your investments. You will also have to rely on your brokers to effectively inform you of any

notices, announcements and/or meetings issued or called by us (upon receipt by those brokers as CCASS participants of the same from CCASS and ultimately from us). The Stock Exchange's Listing Rules also provide that our obligations to deliver notices, announcements and/or meetings will be complied with by a posting on the Stock Exchange website. Our obligations to deliver any cash settlement amount to you will be duly performed by the delivery of any such amount to HKSCC Nominees Limited (or its successors) or another nominee of Hong Kong Securities Clearing Company Limited as the holder. You will therefore have to check your CCASS account (if any) or rely on your brokers for the ultimate delivery of any cash settlement amount to you as the investor.

20 We do not give you any advice or credit analysis

We are not responsible for the lawfulness of your acquisition of our structured products. We are not giving you any advice or credit analysis of the underlying assets. You shall be deemed to have made a representation to such effect for each purchase of any series of our structured products.

21 We are not the holding company of the Group to which we belong

We are not the ultimate holding company of the Group to which we belong and with which our name is identified. The ultimate holding company of the Group to which we belong is Standard Chartered PLC ("SCPLC").

22 U.S. foreign accounts reporting

The Issuer may be subject to U.S. withholding tax if it fails to enter into an agreement with the Internal Revenue Service ("IRS") to report certain information about the holders of the structured products or a holder of the structured products may become subject to U.S. withholding if it fails to provide requested information to the Issuer.

The Hiring Incentives to Restore Employment Act, which was enacted in early 2010 and includes provisions from the Foreign Account Tax Compliance Act ("FATCA"), imposes a 30 per cent. withholding tax on certain payments made to non-U.S. financial institutions (including entities such as the Issuer) that do not enter into and comply with an agreement with the IRS to provide certain information on their account holders (which may include holders of the structured products).

The relevant rules have not yet been fully developed and the future application of FATCA to the Issuer and the holders of structured products is uncertain. It is our intention, subject to further clarification and analysis of the legal requirements associated with entering into relevant legal agreements with the U.S. government, to be a participating foreign financial institution (as defined in FATCA) and conclude IRS Agreements for relevant entities in the Group. Additionally, U.S. Treasury regulations issued under FATCA provide an alternative to FATCA compliance for issuers that reside in jurisdictions that have entered into intergovernmental agreements ("IGAs") with the United States. Although the relevant rules have not yet been fully developed, the United States and the United Kingdom have signed an IGA and it is our intention to comply with the relevant reporting requirements imposed therein. As a result such applicable IRS Agreement or IGA, holders of structured products may be required to provide certain information or be subject to withholding on certain payments made to them.

If withholding is required under FATCA, the Issuer would be entitled to withhold taxes without being required to pay any additional amounts with respect to amounts so withheld.

FATCA is particularly complex and its application to the Issuer is uncertain at this time. Each holder of structured products should consult its own tax advisor as to the application of FATCA to an investment in the structured products.

23 *Potential U.S. withholding tax*

A “dividend equivalent” payment is treated as a dividend from sources within the U.S. and such payments generally would be subject to a 30 per cent. U.S. withholding tax if paid to a non-U.S. holder. Under proposed U.S. Treasury regulations, certain payments that are contingent upon or determined by reference to U.S. source dividends, including payments reflecting adjustments for (extraordinary) dividends, with respect to equity-linked instruments, including the structured products, may be treated as dividend equivalents. If enacted in their current form, the regulations will impose a withholding tax on payments made on the structured products on or after 1 January 2014 that are treated as dividend equivalents. In that case, the Issuer would be entitled to withhold taxes in addition to the withholding tax described above without being required to pay any additional amounts with respect to amounts so withheld. Further, non-U.S. holders may be required to provide certifications prior to, or upon the sale, redemption or maturity of the structured products in order to minimize or avoid U.S. withholding taxes.

24 *The effect of the combination of risk factors may be unpredictable*

Two or more risk factors may simultaneously have an effect on the value of our structured products such that the effect of any individual risk factor may not be predictable. No assurance can be given as to the effect any combination of risk factors may have on the value of our structured products.

Additional risks associated with our CBBCs

25 *You may lose all or substantially all your investment at expiry*

If you hold your CBBCs until expiry and no mandatory call event occurs during the observation period, the cash settlement amount payable upon exercise at expiry will depend on how much the closing price or level of the underlying asset is above (in the case of bull CBBCs) or below (in the case of bear CBBCs) the strike price or level. The cash settlement amount may be substantially less than your initial investment in the CBBCs, and may even be zero.

26 *You may lose all or substantially all of your investment upon the occurrence of the mandatory call event*

You may lose all or substantially all of your investment in our CBBCs if a mandatory call event occurs during the observation period of our CBBCs – meaning that the price or level of the underlying asset is at any time at or below (for our bull CBBCs) or at or above (for our bear CBBCs) the predetermined call price or call level during the observation period. The mandatory call event may be triggered by a single, small trade in the underlying share or security comprised in the underlying index, regardless of the size of the trade. The trade that triggers the mandatory call event may only be the result of a temporary fall (or rise, as the case may be) in the price or level of the underlying asset caused by a number of factors. Subsequent to the occurrence of the mandatory call event, the price or level of the underlying asset may recover to above or below, as the case may be, the call price or call level.

Upon the occurrence of a mandatory call event, a Category N CBBC will become worthless while a Category R CBBC will be settled by the payment of a residual value (if any) by us. Such residual value is determined by reference to the amount by which the minimum trade price or index level of the underlying asset during the MCE valuation period exceeds the strike price or strike level (for our Category R bull CBBCs) or the amount by which the strike price or strike level exceeds the maximum trade price or index level of the underlying asset during the MCE valuation period (for our Category R bear CBBCs). This residual value may be as low as zero.

Where the mandatory call event occurs in a continuous trading session of the Stock Exchange, all trades in the CBBCs concluded via auto-matching or manually after the time the occurrence of a mandatory call event will be invalid and will be cancelled and will not be recognised by us or the Stock Exchange. Where the mandatory call event occurs during a pre-opening session or a closing auction session (if applicable) of the Stock Exchange, all auction trades in the CBBCs concluded in such session and all manual trades concluded after the end of the pre-order matching period in such session will be invalid and will be cancelled and will not be recognised by us or the Stock Exchange. We will announce the occurrence of the mandatory call event in accordance with the requirements of the Stock Exchange but the announcement of the same can be delayed by among other reasons, technical errors or system failures beyond our control. Your gain or loss from a trade that is subsequently cancelled will be reversed. If in the meantime you have entered into transactions with our CBBCs as a hedge, then upon cancellation of trades in our CBBCs, you will need to find a replacement hedge and may incur losses in doing so.

Under the terms and conditions of our CBBCs, none of the Stock Exchange, us, the Issuer or sponsor of the underlying asset or any of our or their affiliates or agents shall be responsible for any losses suffered as a result of the determination of the price or level of the underlying asset, any adjustments involved in determining the occurrence of the mandatory call event, the calculation of any cash settlement amount and the suspension of trading in connection with the mandatory call event, notwithstanding that such adjustments, calculation or suspension may have occurred as a result of an error.

27 Mandatory call event is irrevocable except in limited circumstances

A mandatory call event is irrevocable unless it is triggered as a result of any of the following events:

- (a) system malfunction or other technical errors of the Hong Kong Exchanges and Clearing Limited (such as the setting up of wrong call price/call level and other parameters), and such event is reported by the Stock Exchange to us and we and the Stock Exchange mutually agree that such mandatory call event is to be revoked; or
- (b) manifest errors caused by the relevant third party price source where applicable (such as any miscalculation of the index level by the relevant index compiler), and such event is reported by us to the Stock Exchange and we and the Stock Exchange mutually agree that such mandatory call event is to be revoked,

in each case, such mutual agreement must be reached no later than 30 minutes before the commencement of trading (including the pre-opening session) (Hong Kong time) on the trading day of the Stock Exchange immediately following the day on which the mandatory call event occurs, or such other time frame as prescribed by the Stock Exchange from time to time.

28 A CBBC is different from a margin trading position over the same underlying asset

An investment in CBBC is similar to but not the same as a corresponding margin trading position. Both are different from an actual position in the underlying asset in that an investor does not have to pay an amount equal to the maximum potential exposure of the position upon entry. Because the initial payment is small by comparison, a given change in the price or level of the underlying asset can result in a greater percentage change in the value of the investment.

Whilst the total gain or loss of investing in a CBBC upon exercise at expiry may be similar to that of an equivalent margin trading position (of same size and strike price or level) on the same underlying asset, at other times a CBBC differs from an equivalent margin trading position in many ways.

Generally a margin trading position will be marked-to-market at the end of every trading day so that the holder would realise the day's gain or loss immediately, unless a mandatory call event or expiry occurs the gain or loss of a CBBC is realised only when it is sold. One can maintain a margin trading position even if the underlying asset price or level continues to move against the direction anticipated, so long as the holder continues to put up additional margin, with the CBBC when the underlying asset price or level reaches the call level it is immediately terminated. Once the call level is reached, a CBBC investor would lose his entire investment (for a category N CBBC) or would only receive the residual value (if any, for a category R CBBC) and due to the call termination, he would not benefit from the reversal of direction of the underlying asset price or level subsequent to the mandatory call event (for a category N CBBC) or the determination of residual value (for a category R CBBC).

This call termination feature of CBBCs (among other reasons) also means that the theoretical value of a CBBC at a time prior to its expiry will be different from that of an equivalent margin trading position. A given percentage change in the price or level of the underlying asset may not result in the same percentage change (in the same direction for a bull CBBC or in the opposite direction for a bear CBBC) in the theoretical value of the CBBC. The percentage change in theoretical value of the CBBC may be greater or smaller (or may be zero), in the same or opposite direction.

The theoretical value of a CBBC at any time will also contain an amount which reflects our cost of maintaining the corresponding hedge position in the underlying asset (e.g. the cost of funding a long position in shares, the net cost of borrowing shares for short sale, or the cost of margin in maintaining the futures position). The purchase price of a CBBC you pay may include all or part of such cost and when the mandatory call event occurs, the residual value (if any) will not contain a refund of such cost.

Other than at expiry (assuming mandatory call event does not occur prior to expiry) when the cash settlement amount will be set by the closing price or level of the underlying asset, at any time prior to the expiry you may sell your holding of CBBCs in the market and the price realised may or may not be the same as the theoretical value of the CBBCs, as the price will be determined by the levels of supply and demand in the market.

29 The funding costs of our CBBCs will fluctuate during the term of our CBBCs

The issue price of our CBBCs is set by reference to the difference between the initial reference spot price or level of the underlying asset and the strike price or strike level, plus the applicable funding cost. The initial funding cost applicable to our CBBCs is specified in the relevant supplemental listing document. It will fluctuate during the term of our CBBCs as the funding rate changes from time to time. The initial funding cost is an amount determined by us based on one or more factors, including but not limited to the strike price or strike level (as the case may be), the prevailing interest rate, the expected term of our CBBCs, any expected notional dividends in respect of the underlying asset and the margin financing provided by us (if any).

30 Residual Value will not include residual funding cost

The residual value (if any) payable by us following the occurrence of a mandatory call event will not include the residual funding cost for our CBBCs. When a mandatory call event occurs, you will lose the funding cost for the full period.

Risks relating to the Group

Internal risks and risks relating to the Group and its business operations

31 Changes in the credit quality and the recoverability of loans and amounts due from counterparties may have a material adverse effect on the Group's financial condition, results of operations and prospects

Risks arising from changes in credit quality and the recoverability of loans and amounts due from counterparties are inherent in a wide range of the Group's businesses. Adverse changes in the credit quality of the Group's borrowers and counterparties (both sovereign and non-sovereign), or adverse changes arising from a further deterioration in global economic conditions or asset values, or systemic failures in financial systems could reduce the recoverability and value of the Group's assets and require an increase in the Group's level of provisions for bad and doubtful debts or increase the levels of impairments or write-downs experienced by the Group. An adverse change in economic conditions could also adversely affect the Group's level of banking activity. Although the Group devotes considerable resources to managing the above risks, many of the factors affecting borrower and counterparty credit risks are beyond the control of the Group and the occurrence of any of the foregoing risks or a failure by the Group to manage these risks effectively could have a material adverse effect on the Group's financial condition, results of operations and prospects.

32 The value of certain financial instruments recorded at fair value is determined using financial models incorporating assumptions, judgments and estimates which may change over time

In order to establish the value of financial instruments which the Group, under International Financial Reporting Standards as adopted by the European Union ("IFRS"), recognises at fair value, the Group relies on quoted market prices or, where the market for a financial instrument is not sufficiently active, internal valuation models that utilise observable market data. In certain circumstances, the data for individual financial instruments or classes of financial instrument utilised by such valuation models may not be available, or may become unavailable, due to changes in market conditions, as has been the case at times since the commencement of the financial crisis. In such circumstances, the Group's internal valuation models require the Group to make assumptions, judgments and estimates in order to establish fair value. In common with other financial institutions, these internal valuation models are complex, and the assumptions, judgments and estimates the Group is required to make often relate to matters that are inherently uncertain, such as expected cash flows, the ability of borrowers to service debt, asset price appreciation and depreciation, and relative levels of defaults and deficiencies. Such assumptions, judgments and estimates may need to be updated to reflect new information, changing trends and market conditions. The resulting change in the fair values of financial instruments could have a material adverse effect on the Group's financial condition, results of operations and prospects.

33 The Group's business could be affected if its capital is not managed effectively

The Group must ensure the effective management of its capital position in order to operate its business, to continue to grow organically and to pursue its strategy. Future changes that limit the Group's ability to manage its balance sheet and capital resources effectively, as well as capital decisions taken by the Group, could have a material adverse effect on the Group's regulatory capital position, its financial condition, results of operations and prospects.

34 Lack of liquidity is a risk to the Group's business

Liquidity risk is the risk that the Group either does not have sufficient or sufficiently liquid financial resources available to meet all its obligations and commitments as they fall due, or can access them only at excessive cost. This risk is inherent in banking operations and can be

heightened by a number of factors, including an over-reliance on or inability to access a particular source of funding (including, for example, reliance on inter-bank funding), the extent of mobility of intra-Group funding, changes in credit ratings or market-wide phenomena such as financial market instability and natural disasters.

As the Group operates in markets which have been and may continue to be affected by illiquidity and extreme price volatility, either directly or indirectly through exposures to securities, loans, derivatives and other commitments, the Group's policy is to manage its liquidity prudently in all geographic locations and for all currencies. However, any reoccurrence or prolonged continuation of such conditions could have an adverse effect on the Group's results of operations and, if severe, could have a material adverse effect on the Group's financial condition and prospects. In addition, any significant increase in the cost of acquiring deposits, inability to further increase deposits or significant outflow of deposits from the Group, particularly if it occurs over a short period of time, could have a material adverse impact on the Group's financial condition and liquidity position.

35 The Group is subject to the risk of regulators' increased capital and liquidity requirements

The Group's lead supervisor, the Prudential Regulation Authority (the "PRA"), determines the minimum level of capital that the Group is required to hold by reference to its balance sheet, off-balance sheet, counterparty and risk exposures. Currently, the Group is well capitalised on a Basel II basis and would expect to remain well capitalised under Basel III (as defined below). However, the PRA could (beyond the changes described below) apply increasingly stringent stress test scenarios in determining the required capital minima for the Group and any of its UK regulated firms, increase the minimum regulatory requirements imposed on the Group or any of its UK regulated firms, introduce certain changes to the basis on which capital and risk-weighted assets ("RWA") are computed, impose additional capital buffers, require restrictions on leverage, introduce further liquidity requirements, impose new regulatory requirements and/or change the manner in which it applies existing requirements to the Group or its UK regulated firms. In order to meet such additional regulatory requirements the Group may be required to raise capital and liquidity or take other actions to ensure compliance which could have a material adverse impact on the Group's financial condition, results of operation and prospects.

The Group's ability to maintain its regulatory capital ratios in the longer term could be affected by a number of factors, including its RWA, post-tax profit and fair value adjustments. In addition to the fair value adjustments, the Group's Core Tier 1 capital (referred to as Common Equity Tier 1 Capital under CRD IV) and total capital ratios will be directly impacted by any shortfall in expected post-tax profit (which could result, most notably, from greater than anticipated asset impairments, adverse volatility relating to the lending businesses and/or a substantial slowdown in the major markets in which the Group operates). Furthermore, under Basel II and Basel III, capital requirements are inherently more sensitive to market conditions than under previous regimes and capital requirements are likely to increase if economic conditions or negative trends in the financial markets worsen.

Basel III

In December 2010, the Basel Committee on Banking Supervision (the "BCBS") finalised its proposals for new capital and liquidity requirements intended to strengthen existing capital standards and to establish minimum liquidity standards (commonly referred to as "Basel III"). These include new definitions of Common Equity Tier 1 Capital as well as new eligibility criteria for Additional Tier 1 Capital and Tier 2 Capital, requiring them to absorb losses should the Issuer become non-viable, either by virtue of a write-down of the principal amount of such securities or the conversion of the principal amount into the Issuer's or the Issuer's parent undertaking's ordinary shares. Innovative Tier 1 Capital and Tier 3 Capital are being abolished. A harmonised set of

deductions is proposed with most deductions being made from Common Equity Tier 1 Capital. A revised version of the Basel III capital rules was published in June 2011 and further changes or clarifications are possible.

Under Basel III, the minimum Common Equity Tier 1 Capital ratio will be 4.5 per cent. of RWA, with a further capital conservation buffer of 2.5 per cent. of RWA to be made up of Common Equity Tier 1 Capital, increasing the minimum Common Equity Tier 1 Capital ratio to an effective 7 per cent. of RWA. The minimum total capital ratio (including the capital conservation buffer of 2.5 per cent.) will increase from 8 per cent. to 10.5 per cent. of RWA. In addition, banks will need to satisfy a minimum leverage ratio requirement which has been set at 3 per cent. of Tier 1 capital over total exposures during an initial testing phase. National regulators will be able to impose an additional counter-cyclical capital buffer of up to 2.5 per cent. of RWA, although there is scope for national regulators to set a higher buffer.

The BCBS proposed that the new Basel III requirements would be phased-in from 1 January 2013, with final implementation of the package by 1 January 2019. As mentioned below, Basel III will be implemented in the EU through new legislation drafted by the European Commission.

Global systemically important banks (“**G-SIBs**”) will be required to maintain regulatory capital in excess of the Basel III minimum standards. According to the approach finalised by the BCBS in November 2011, G-SIBs will need to meet an additional Common Equity Tier 1 Capital requirement ranging from 1 per cent. to 2.5 per cent. of RWA, depending on a bank’s perceived systemic importance. To provide a disincentive for banks facing the highest charge to increase materially their global systemic importance in the future, an additional 1 per cent. of RWA buffer would be applied in such circumstances. The higher capital requirements for G-SIBs will be phased-in between 2016 and 2018. The Group was designated a G-SIB by the Financial Stability Board (“**FSB**”) when it published a revised list of G-SIBs on 1 November 2012 (the initial list was published in November 2011). The Group has been allocated to the 1 per cent. capital buffer bucket and will need to meet this additional capital requirement between 2016 and 2018 if it is still on the G-SIB list that is published in November 2014. The Group’s non-UK entities may be designated domestic systemically important banks in the local markets in which they operate in accordance with the principles-based approach developed by the BCBS.

CRD IV

Basel III will be implemented in the European Union through legislation replacing the EU Capital Requirements Directive. The new legislation is commonly referred to as “**CRD IV**” and consists of an EU directive and a regulation. The European Commission’s proposals for CRD IV were published in July 2011 and are still being negotiated by the Council and the European Parliament. References herein to the contents of CRD IV relate to the initial European Commission proposals, but it should be noted that a significant number of amendments have been proposed and the final directive and regulation are likely to differ in significant respects from the Commission’s proposals. It is possible that the PRA will impose more onerous requirements than those required by Basel III or CRD IV, to the extent permissible under CRD IV, or require compliance in advance of the timetable announced by the BCBS which, in the case of the former, could have a material adverse effect on the Group. The 1 January 2013 target date for commencing CRD IV implementation in the EU was not met. There has been no formal announcement at the time of writing about the revised timelines for finalising the CRD IV legislative package, but implementation is now not expected to begin before 1 January 2014.

According to the proposed CRD IV regulation, capital instruments that do not qualify as Common Equity Tier 1 Capital, Additional Tier 1 Capital or Tier 2 Capital will be phased out over a period. The level of recognition is expected to be capped at 90 per cent. on the entry into force of CRD IV, and decline by 10 percentage points each subsequent year, although member states will be free to impose stricter limits on the grandfathering of capital instruments or to exclude such

instruments from capital with effect from the date of implementation of CRD IV. Capital instruments issued after the entry into force of the regulation that do not meet the criteria for inclusion in Common Equity Tier 1 Capital, Additional Tier 1 Capital or Tier 2 Capital will not be grandfathered. Further, instruments with an incentive to redeem (e.g. with an interest step-up) will be phased out at their effective maturity date. The Group may not be able contractually to redeem instruments that cease to be eligible under CRD II and/or CRD IV, with the result that the Group may be forced to raise further capital as a result of such instruments not being eligible as regulatory capital in the future.

The European Banking Authority has been tasked by the European Commission with developing technical standards in respect of many of the CRD IV requirements, facilitating the creation of a single EU rulebook for banks.

The UK's Independent Commission on Banking

On 12 September 2011 the UK's Independent Commission on Banking (the "ICB") published its final report. The ICB recommended that UK banks that accept retail and small business deposits from customers in the EEA must establish a UK ring-fenced subsidiary to carry on that business. The ring-fenced subsidiary would be prohibited from engaging in certain activities (such as proprietary trading, underwriting and most derivatives activities), while other activities (including lending to large corporates) could be carried out either by the ring-fenced subsidiary or by other entities in the banking group. The ICB report states that the UK ring-fenced subsidiary should hold equity capital beyond the Basel III minimum with the largest UK retail banks maintaining equity capital of at least 10 per cent. of RWA. Smaller UK retail banks would require a minimum equity capital ratio of between 7 per cent. and 10 per cent. of RWA depending on their size.

In addition, the ICB recommended that G-SIBs required to maintain a capital surcharge of 2.5 per cent. of RWA (see above), as well as the largest UK retail deposit takers, should have "primary loss absorbing capacity" of at least 17 per cent. of RWA, with smaller UK-headquartered G-SIBs and UK ring-fenced subsidiaries required to have "primary loss absorbing capacity" of between 10.5 per cent. and 17 per cent. of RWA depending on their size. "Primary loss absorbing capacity" is proposed by the ICB to include Tier 1 and Tier 2 capital as well as "bail-in bonds" which are capable of being written off, or converted to common equity in resolution. The ICB further recommended that the competent authority should have a "broad discretion" to increase the ratio of "primary loss absorbing capacity" by up to a further 3 per cent. (a "resolution buffer") of RWA having regard to a number of factors including the complexity of a bank's structure and activities, the availability and likely effectiveness of resolution tools, any evidence that the bank is benefiting from an implicit government guarantee and the bank's contribution to systemic risk. This discretion would include determining the form in which the resolution buffer is held, as well as the entities in the banking group to which the requirement applies. In addition, the ICB recommended that all UK-headquartered banks and UK ring-fenced banks should maintain a Tier 1 Leverage Ratio of at least 3 per cent. with large UK ring-fenced banks having to meet a ratio of up to 4.06 per cent. depending on their size. It is possible that implementation of the ICB proposals will require the Group to increase its loss absorbing capacity in the future.

The Government published a White Paper on 14 June 2012 setting out how it intends to implement many of the ICB's proposals. Much of the detail of the new regime will be set out in secondary legislation and/or PRA rules. Only accepting deposits from individuals and small and medium sized enterprises ("SMEs") will be mandated as a ring-fenced activity at the outset although powers will be granted to mandate other activities if considered to be necessary. Whilst most wholesale market activities will be prohibited for ring-fenced banks, limited wholesale market activities relating to funding, hedging and liquidity will be permitted within the ring fence. Ring-fenced banks will also be permitted to offer "simple" derivative products to SMEs and individuals for hedging purposes. The Government sees a case for imposing limits on, and regulating the terms of, intra-group funding, as a ring-fenced bank would be vulnerable if funding

was suddenly withdrawn because of financial difficulties outside the ring fence. Capital requirements which exceed international requirements (i.e. Basel III/CRD IV) or local requirements will not be applied to the overseas operations of larger banks if those overseas operations do not pose a risk to UK and/or EEA financial stability.

A bill to implement the reforms was introduced into Parliament in February 2013. The bill will introduce depositor preference in respect of deposits insured by the Financial Services Compensation Scheme. Under the bill only deposit-taking is prescribed as an activity that must be carried on within a ring-fenced bank although power will be granted to HM Treasury to specify other activities if deemed necessary. Secondary legislation will address:

- (a) the scope of ring-fencing i.e. any core and excluded activities additional to those included in the bill. Exceptions will include providing for deposits from larger companies to be held outside of ring-fenced banks if those customers wish, and setting a level of net worth, beyond which individuals may choose whether or not to place deposits in ring-fenced banks; and
- (b) regulations governing the way in which the PRA may use its powers to impose additional loss absorbency requirements on specified classes of banks. This would enable the PRA to require UK banks to issue minimum amounts of loss absorbing debt.

In addition, the bill contains provision for the PRA to make regulatory rules on the ‘height’ of the ring-fence (i.e. the legal, economic and operational independence of the ring-fenced bank). In February 2013 the Chancellor of the Exchequer announced that if a bank fails to comply with the ring-fencing requirements, the PRA and HM Treasury will have the power to break up the bank.

The Government also intends to implement a bail-in regime in the context of the finalisation and implementation of the EU Recovery and Resolution Directive, which makes provision for such tools. See further the paragraph entitled “The European Commission’s proposals for the Recovery and Resolution Directive may restrict the Group’s business operations and lead to an increase in its costs of business”.

New liquidity standards under Basel III and CRD IV

Under Basel III and CRD IV, banks will be required to meet two new liquidity standards: a liquidity coverage ratio (“**LCR**”) and a net stable funding ratio (“**NSFR**”). The LCR will require banks to hold an amount of unencumbered, high quality liquid assets that can be used to offset the net cash outflows the bank would encounter under an acute short-term stress scenario. The NSFR will measure the amount of longer-term, stable sources of funding employed by a bank relative to the liquidity profiles of the assets funded and the potential for contingent calls on liquidity arising from off-balance sheet commitments and obligations, although the details of the NSFR are subject to further development and calibration. In January 2013 the BCBS revised the definition of liquid assets that will be eligible to meet the LCR as well as adjusting a number of the assumed net cash outflows in a liquidity stress. The LCR will be introduced on 1 January 2015 and the minimum requirement will begin at 60 per cent., rising in equal annual steps of 10 percentage points to reach 100 per cent. on 1 January 2019. The NSFR will remain subject to an observation period ahead of its planned implementation in 2018.

The PRA has its own liquidity standards based on the following elements: (i) principles of self-sufficiency and adequacy of liquidity resources, (ii) enhanced systems and control requirements, (iii) quantitative requirements, including Individual Liquidity Adequacy Standards, coupled with a narrow definition of liquid assets and (iv) frequent regulatory reporting. SCB meets the minimum requirements set by the PRA.

UK Macro-prudential Regulation

The Financial Services Act 2012 enables the Financial Policy Committee (“FPC”) of the Bank of England to give directions to the PRA so as to ensure implementation by the PRA of macro-prudential measures. HM Treasury consulted in September 2012 on proposed macro-prudential measures including the imposition of a counter-cyclical capital buffer as soon as practicable after the CRD IV directive comes into force. Within the limits of EU law, the Government intends that the FPC should be able to require the PRA to impose additional capital requirements on banks to address risks specific to the UK market for banking services. The Government intends to provide the FPC with a time-varying leverage ratio direction tool starting in 2018. Until that date the FPC intends to assess risks from unsustainable leverage in other ways including through recommendations or adjusting sectoral capital requirements. In January 2013 the interim FPC published its draft policy to adjust capital requirements including the counter-cyclical capital buffer and modifications to sectoral capital requirements. The new powers conferred or intended to be conferred on the FPC will provide it with substantial powers to set higher prudential standards for UK banks, although it is not yet possible to ascertain definitively what the impact of exercising such powers would be on the Group.

If the regulatory capital requirements, liquidity requirements or other requirements applied to the Group are increased in the future, any failure by the Group to satisfy such increased requirements could result in regulatory intervention or sanctions (including loss or suspension of a banking licence) or significant reputational harm, which in turn may have a material adverse effect on the Group’s financial condition, results of operations and prospects.

“Common Equity Tier 1 Capital”, “Core Tier 1 Capital” “Additional Tier 1 Capital”, “Innovative Tier 1 Capital”, “Tier 1 Capital”, “Tier 2 Capital” and “Tier 3 Capital”, depending on the context, have the meaning (i) given to such terms in the General Prudential Sourcebook for Banks, Building Societies, Insurers and Investment Firms (as set out in the handbook of rules and guidance issued by the Financial Services Authority (“FSA”) under the Financial Services and Markets Act 2000 (“FSMA”)) and other guidance issued by the FSA, (ii) any future such rules of the PRA or (iii) required under Basel III and/or CRD IV.

36 Failure to manage legal and regulatory risk properly can impact the Group adversely

The Group is subject to a wide variety of banking and financial services laws and regulations and is supervised by a large number of regulatory and enforcement authorities in each of the jurisdictions in which it operates. As a result, the Group is exposed to many forms of legal and regulatory risk, which may arise in a number of ways, primarily:

- losses may be caused by changes in applicable laws and regulations or in their application; the Group may not be able to predict the timing or form of any current or future regulatory or law enforcement initiatives which are becoming increasingly common for international banks and financial institutions; the UK regulatory architecture changes are giving rise to changes in both approach and regulations. The risks that these changes pose are discussed in more detail in the below risk factor titled “*The structure of the financial regulatory authorities in the UK and the UK regulatory framework that applies to members of the Group is the subject of reform and reorganisation*”;
- as a result of being subject to a variety of complex legal and regulatory regimes in many of the countries where it operates, in respect of which requirements, standards or sanctions may differ significantly from country to country;

- as a result of being subject to extensive laws and regulations which are designed to combat money laundering and terrorist financing, and to enforce compliance with sanctions against designated countries, entities and persons, including countries in which, and entities or persons with which, the Group may conduct and may have conducted business from time to time;
- risk from defective transactions or contracts, either where contractual obligations are not enforceable or do not allocate rights and obligations as intended, or where contractual obligations are enforceable against the Group in an unexpected or adverse way, or by defective security arrangements;
- the title to and ability to control the assets of the Group (including the intellectual property of the Group, such as its trade names) may not be adequately protected; and
- allegations being made against the Group claiming liability for damages to third parties including where legal proceedings are brought against it; regardless of whether such claims have merit, the outcome of legal proceedings is inherently uncertain and could result in financial loss.

Although the Group has processes and controls to manage legal and regulatory risks, failure to manage such risks properly may impact the Group adversely or result in administrative actions, penalties or other proceedings involving the Group which may have a material adverse effect on the Group's business, reputation, its financial condition, results of operations and prospects. The reorganisation of the UK regulatory architecture has the potential to cause administrative and operational disruption for the regulatory authorities concerned. This disruption could have impact on the resources which the FSA, PRA and Financial Conduct Authority ("FCA") are able to devote to the supervision of regulated financial services firms (including the Group) and the nature of their approach to regulation.

In addition, a failure to comply with applicable laws or regulations by the Group's employees, representatives, agents and third party service providers, either in or outside the course of their employment or services, or suspected or perceived failures by them, may result in enquiries or investigations by regulatory and enforcement authorities, or in regulatory or enforcement action against the Group or such employees, representatives, agents and third party service providers in various jurisdictions. Such actions may adversely impact the reputation of the Group, result in adverse media reports, lead to increased levels of scrutiny by relevant regulatory or supervisory bodies, additional costs, penalties, claims and expenses being incurred by the Group and, as a result, have a material adverse effect on the Group's ability to conduct its business, its financial condition, results of operations and prospects.

37 Operational risks are inherent in the Group's business

Operational risk is the risk of direct or indirect loss due to an event or action resulting from the failure of internal processes, people and systems, or from external events. Operational losses can result, for example, from fraud, errors by employees, failure to document transactions properly or to obtain proper authorisation, failure to comply with legal or regulatory requirements or conduct of business rules (including regimes covering anti-money laundering and anti-terrorism, applicable sanctions, insider dealing, market manipulation and market abuse or similar behaviour, including practices for setting market interest rates and other benchmarks) or equipment failures, natural disasters or the failure of external systems. The Group seeks to ensure that operational risks are managed in a timely and effective manner, through a framework of policies, procedures and tools but this framework may prove ineffective in managing such risks. Any of these risks could have a material adverse effect on the Group's ability to conduct business, its financial condition, results of operations and prospects.

However, this does not imply that either SCB or the Group will be unable to comply with their obligations as a supervised firm regulated by the FCA and the PRA.

38 Practice and process reviews in certain markets may present risk in terms of not being able to predict scope and outcome of these reviews

The Group seeks to comply with all applicable laws and regulations but may be subject to regulatory actions and investigations across our markets, the outcome of which are generally difficult to predict and can be material to the Group. The Group seeks to co-operate with regulators in response to requests for information, inquiries and investigations and takes remedial actions as necessary.

Regulators and other agencies in certain markets are conducting investigations or reviews into submissions made to set various market interest rates and other benchmarks. At relevant times, certain of SCB's branches and/or subsidiaries were (and are) members of panels in some of those markets, submitting data to bodies that set such rates and benchmarks. The Group is therefore conducting reviews of its practices and processes in those markets. It is not possible to predict the scope and ultimate outcome of these or future reviews, including the timing or potential impact of their conclusions.

During 2012, the Group reached settlements with the U.S. authorities regarding U.S. sanctions compliance in the period 2001 to 2007, involving a consent order by the New York Department of Financial Services ("NYDFS"), a cease and desist order by the Federal Reserve Bank of New York ("FRBNY"), deferred prosecution agreements with each of the Department of Justice and with the District Attorney of New York and a settlement agreement with the Office of Foreign Assets Control. In addition to the civil penalties totalling US\$667 million, the terms of these settlements include conditions and ongoing obligations such as: reporting requirements; compliance reviews; banking transparency requirements; training measures; audit programmes; disclosure obligations; requirements to co-operate with further information requests and testimony; requirement to compliance with a remediation programme and the appointment of an independent monitor at the direction of NYDFS; and compliance with a separate remediation programme at the direction of the FRBNY.

The Group is engaged with all relevant authorities to implement these programmes and to meet the obligations under the settlements, including the monitoring and compliance reviews, responding to further requests for information and inquiries related to its sanctions compliance and identifying further improvements to processes. The Group remains resolute in its commitment to tackling financial crime across its global footprint and complying with all relevant regulations. The Group has made significant enhancements in its global sanctions and anti-money laundering systems and procedures. The Group recognises that, following these settlements, its compliance with sanctions, not just in the U.S. but throughout its footprint, will remain a focus of the relevant authorities.

39 The business of the Group may be affected if it is unable to recruit, retain and develop appropriate senior management and skilled personnel

The Group's continued success depends in part on the continued service of key members of its management team and other skilled personnel. The ability to continue to attract, train, motivate and retain highly qualified professionals is a key element of the Group's strategy. The successful implementation of the Group's growth strategy depends on the availability of skilled management at its head office and at each of its business units and international locations. Competition for skilled management and other employees is particularly evident in a number of the geographic areas in which the Group operates, particularly, in emerging markets. If the Group or one of its business units or other functions fails to staff their operations appropriately, or loses one or more of its key senior executives and fails to replace them in a satisfactory and timely manner, its business, financial condition and results of operations, including control of operational risks, may be

adversely affected. Likewise, if the Group fails to attract and appropriately train, motivate and retain qualified professionals, its business, and in particular the ability to expand in certain areas, may be adversely affected, which could have a material adverse effect on the Group's financial condition, results of operations and prospects. The European Union ("EU") and the FSA have introduced, and may introduce further, requirements in respect of remuneration which could potentially affect the ability of the Group to recruit, retain and motivate appropriate senior management and skilled personnel. In particular, restrictions have applied from 1 January 2011 on the payment, structure and disclosure of bonuses and other non-contractual remuneration to senior management and anyone whose professional activities could have a material impact on a firm's risk profile. These restrictions apply globally to the Group but similar restrictions do not apply to competitors based outside the EU, notably in the Group's core markets across Asia (except Hong Kong), Africa, and the Middle East which creates an uneven playing field when competing in those markets for talent with other local and non-EU international banks. In addition to the existing remuneration requirements, CRD IV may limit the amount of variable compensation that can be paid to a maximum of one times base salary which would have global implications for the Group. Again, such a requirement would not apply to competitors headquartered outside the EU operating in the Group's core markets. Such provisions may have a significant impact on both the Group's ability to manage the variable compensation pool in stress situations and to compete and retain talent.

Any of these matters could have a material adverse effect on the Group's ability to conduct its business, its financial condition, results of operations and prospects.

40 The Group is expanding its operations and this growth may represent a risk if not managed effectively

The Group is experiencing significant growth as it expands geographically and in the scope of the products and services it offers, including through acquisitions. The Group's business strategy is based on organic growth but includes selective plans to continue to acquire assets or businesses that it believes are logical extensions of its existing businesses to increase cash flow and earnings. The Group continues to look at potential acquisitions in a number of markets. The Group may experience some, or all, of the difficulties described below in managing the integration of any subsequent acquisitions into its existing businesses. The failure to manage effectively its expansion, whether organic or inorganic, could have a material adverse effect on the Group's financial condition, results of operations and prospects.

The success of the Group's acquisitions will depend, in part, on the ability of its management to integrate the operations of newly acquired businesses with its existing operations and to integrate various departments, personnel, systems and procedures.

Consequently, the Group's ability to implement its business strategy may be constrained and the timing of such implementation may be impacted due to demands placed on existing resources by the acquisition and integration process. There can be no assurance that:

- the Group will be successful in acquiring all the entities it seeks to acquire;
- the acquired entities will achieve the level of performance that the Group anticipates, or that the carrying value of goodwill on acquisition will be fully supported by the cash flows of the cash generating unit to which it has been allocated for the purposes of impairment testing (and, therefore, the value of the assets being carried may be written-down or impaired);
- the projected demand for and prices of the Group's products and services will be realised;

- the acquired entities will not cause a disruption to the Group's ongoing businesses, distract management attention and other resources, or make it difficult to maintain the Group's standards, internal controls and procedures;
- the Group will not be required to incur debt or issue equity securities to pay for acquisitions, for which financing may not be available or may not be available on commercially attractive terms;
- the Group will realise any or all of the intended synergy or growth benefits expected at the time of acquisition;
- the Group's credit ratings will not be negatively affected by such acquired entities or the method of financing any acquisition or acquired business;
- the Group will be able to successfully integrate the services, products and personnel of an acquired entity into its operations, especially if the Group acquires large businesses; or
- the Group will not assume unforeseen liabilities and exposures as a result of such acquisitions.

The occurrence of any one or a combination of these events could have a material adverse effect on the Group's financial condition, results of operations and prospects.

41 The Group's business is subject to reputational risk

Reputational risk is the potential for damage to the Group's franchise, resulting in loss of earnings or adverse impact on market capitalisation as a result of stakeholders taking a negative view of the Group or its actions. Reputational risk could arise from the failure by the Group to effectively mitigate the risks in its businesses including one or more of country, credit, liquidity, market, regulatory, legal or operational risk. It may also arise from a failure to comply with environmental and social standards. Material damage to the Group's reputation with one or more of its key stakeholders could have a material impact on the future earning capacity of the Group through the loss of current and prospective customers or through damage to key governmental or regulatory relationships. A failure to manage reputational risk effectively could materially affect the Group's business, results of operations and prospects.

42 The Group is exposed to pension risk

Pension risk is the potential for loss due to having to meet or meeting an actuarially assessed shortfall in the Group's pension schemes. Pension risk exposure is focused upon the risk to the Group's financial position arising from the need to meet its pension scheme funding obligations. In the event of a shortfall the Group may be required or may choose to make additional payments to the Group's pension schemes which, depending on the amount, could have a material adverse effect on the Group's business, results of operations and prospects.

43 The banking industry is a target for fraud and other criminal activity

The banking industry has long been a target for those seeking to defraud, disrupt legitimate economic activity or facilitate other illegal activities. The risk posed by such criminal activity is growing as criminals become more sophisticated and as they take advantage of the increasing prevalence of technology.

The Group seeks to be vigilant to the risks of internal and external crime in its management of people, processes, systems and in its dealings with customers and other stakeholders. The Group has a broad range of measures in place to monitor and mitigate these risks. However, such measures may not be effective and these risks could have a material adverse effect on the Group's ability to conduct business, its financial condition, results of operations and prospects.

44 The European Commission's proposals for the Recovery and Resolution Directive may restrict the Group's business operations and lead to an increase in its costs of doing business

On 6 June 2012, the European Commission published its proposals for an EU Directive to create a framework for the recovery and resolution of EU banks and investment firms ("**Institutions**"), which includes powers for EU regulators to facilitate the orderly resolution of failing Institutions. The draft measure, commonly referred to as the "**EU Recovery and Resolution Directive**", includes proposals to give powers to EU regulators and other bodies responsible for resolution activities ("**Resolution Authorities**") to recapitalise Institutions in severe financial difficulty by writing-down shares and other regulatory capital instruments issued by such firms (or converting regulatory capital debt instruments into shares) ("**Regulatory Capital Write-Down Powers**"). Resolution Authorities will also have powers to 'bail-in' other unsecured liabilities of an Institution in a resolution scenario ("**Bail-In Powers**"), i.e. to impose losses of a failed or failing Institution onto certain creditors by writing down their unsecured liabilities or by converting them into shares.

The Recovery and Resolution Directive proposes three categories of measures: preparatory and preventative measures, early intervention powers, and resolution powers. If these proposals are implemented, they will directly affect the rights of shareholders and creditors, and could potentially alter or restrict the Group's business operations in certain situations, or increase the cost of doing business for the Group. It is proposed that the transposition date for the majority of the provisions of the Recovery and Resolution Directive is 31 December 2014, although provisions relating to the Bail-In Powers are expected to be transposed into the national law of EU member states by 1 January 2018. The draft proposals are currently being considered by the Council and the European Parliament who are proposing a range of amendments.

Institutions will be required to produce and keep up-to-date recovery plans to restore their viability in the event of a material deterioration in their financial position. Institutions will also be required to provide detailed information about their businesses and entities, from which Resolution Authorities will be required to produce plans for resolving the institution and its group. The need to prepare and submit recovery plans and resolution plan-related information (and requirements to keep such plans and information up-to-date on a regular basis) may represent a significant operational burden.

Institutions that are subject to the Recovery and Resolution Directive may be required to make ex ante contributions to support 'resolution funds', such contributions being proportionate to their liabilities (excluding own funds and covered deposits). These resolution funds will be set up to ensure the effective application of resolution powers by Resolution Authorities. The amounts to be contributed by Institutions are yet to be determined but it is expected that contributions would be made on an annual basis, potentially beginning once the Recovery and Resolution Directive has been implemented in 2015, and could represent a material cost to SCB or the Group. Institutions may also be required to make an extraordinary ex-post contribution if the amounts raised by the ex ante contributions are insufficient to cover the losses, costs or other expenses involved in the resolution of an Institution or Institutions.

The proposals also include extending the existing powers of regulators to intervene at an appropriately early stage to facilitate the recovery of viable Institutions, including powers to remove and replace board members, implement one or more measures identified in the Institution's recovery

plan or appoint special managers to restore the financial health of the Institution. Resolution Authorities may also request that Institutions take certain measures that would improve the resolvability of the Institution or its group, which may necessitate changes to the structure of an Institution's group or its operational strategy (for example, requiring groups to subsidiarise certain businesses or critical services). In a resolution scenario, a number of powers will be conferred on Resolution Authorities under the Recovery and Resolution Directive to facilitate the orderly resolution of a failing Institution (and certain of its holding companies), including powers to:

- (i) transfer, cancel or write-down shares and debt instruments of an Institution or procure the issue of new shares or other capital instruments, including preference shares and contingent convertible instruments;
- (ii) amend or alter the maturity of debt instruments issued by an Institution or amend the amount of interest payable under such instruments;
- (iii) transfer assets, rights and liabilities of an Institution free from any legal or contractual restriction on such transfers;
- (iv) require an Institution to provide any services or facilities that are necessary to enable a purchaser of the Institution's business to operate that business effectively; and
- (v) require the transfer of property located in non-EU jurisdictions.

The wide-ranging powers to intervene and alter an Institution's business, operations and capital and debt structure that would be conferred by the Recovery and Resolution Directive could have significant consequences for the Group's profitability, its financing costs and implementation of its global strategy if such powers were ever exercised. In addition to the direct impact of the statutory write-down and conversion powers described above, changes to the Group's business activities that may be implemented through the powers described above may affect the Group's or its subsidiaries' ability to make payments. The exercise of any of the foregoing powers may have a material adverse effect on the Group's financial condition, results of operations and prospects.

45. The Group may face increased compliance costs as a result of recent legislation passed in the United States

In March 2010, the United States passed legislation that would require non-United States banks to provide information on United States account holders. The first reports will be provided to the U.S. Internal Revenue Service in 2015. If this information is not provided in a form satisfactory to the United States tax authorities, or if a non-United States bank decides not to participate in FATCA, that bank will have a 30 per cent. withholding tax applied to certain amounts derived from United States sources. Under the proposed regulations, no such withholding tax will be imposed on any payments prior to 1 January 2014. At this time, it is not possible to quantify the full costs of complying with the new legislation as some aspects are still to be determined. See the section headed "TAXATION – United States – FATCA Withholding".

In July 2010, the United States passed legislation that puts in place wide-ranging reform of the U.S. regulatory system designed to contain systemic risk (central clearing, margin requirements, capital) and increase market transparency (real-time reporting, exchange or SEF trading, disclosure and record retention). The legislation also introduces registration and oversight of key entities. Standard Chartered is not a U.S. Person and it is a Non-U.S. Person Swap Dealer. This has lessened the impact of Dodd Frank for the Group. However, the reforms did not all take effect immediately as relevant federal regulatory agencies have been issuing new rules, implementing regulations, and/or instructing the relevant regulatory agencies to examine specific issues before taking any action. There have been delays to implementation and the Group therefore continues to track and assess the impact of the reforms as and when further detail and timing is known.

No assurance can be given about the likelihood of further changes to the regulatory regime either: (i) in the U.S. or other countries; (ii) to the Group's particular business sectors; or (iii) specifically in relation to the Group. Any or all of these factors could have a material adverse effect on the conduct of the business of the Group, its strategy and profitability, and therefore its financial condition, results of operations and prospects.

External Risk Factors

46 Macroeconomic risks could result in a material adverse effect on the Group's financial condition, results of operations and prospects

The Group operates in over 68 countries and territories and is affected by the prevailing economic conditions in each market. Macroeconomic factors have an impact on personal expenditure and consumption, demand for business products and services, the debt service burden of consumers or businesses, and the general availability of liquidity and credit. All these factors may impact the Group's financial condition, results of operations and prospects.

One of the principal uncertainties is the extent to which the crisis in the euro zone, global economic slowdown and/or recession may impact the Group's primary markets in Asia, Africa and the Middle East, and the timing of that impact. The linkages between economic activities in different markets are complex and depend not only on direct drivers such as the balance of trade and investment between countries, but also on domestic monetary, fiscal and other policy responses to macroeconomic conditions.

Consequently, one uncertainty for the corporate sector in Wholesale Banking and the SMEs segment in Consumer Banking will be the extent to which exports are impacted by a slowdown in other economies, particularly in the U.S. and Europe. Similarly, there continues to be uncertainty about domestic demand in the Group's markets, which is a function of a number of factors including consumer and business confidence.

Another principal uncertainty for the Group relates to the management of inflationary pressures, to the extent to which they arise. These inflationary pressures may be exacerbated in some countries by the reduction or removal of fuel price subsidies and the impact of significant rises in the price of certain foodstuffs. An increase in inflation can have a number of adverse impacts on the Group's business, including, but not limited to, increasing its operating expenses. High inflation could also have an adverse effect on the credit quality of the Group's individual and corporate borrowers, as well as its counterparties, and could lead to an increase in delinquencies and defaults across a wide range of sectors. Although the Group seeks to manage this risk by setting concentration caps (by counterparty or groups of connected counterparties, by industry sector and country in Wholesale Banking and by product and country in Consumer Banking), and by regularly monitoring credit exposures and political and economic trends, high inflation could nevertheless impact profitability and otherwise have a material adverse effect on the Group's financial condition, results of operations and prospects.

Whilst the Group maintains significant geographic and business diversification which may minimise the impact of certain economic factors including a downturn, diversification of the Group may not be effective to safeguard the Group from the effect of macroeconomic factors which may impact on the overall economy in a single country or region, or globally.

47 *The Group operates primarily in Asia, Africa and the Middle East, and these operations expose it to risks arising from the political and economic environment of markets in these areas that could adversely affect its financial condition, results of operations and prospects*

The Group faces significant economic and political risks, including risks arising from economic volatility, recession, inflationary pressures, exchange rate fluctuation and interruption of business, as well as from civil unrest, imposition of exchange or capital controls, sanctions relating to specific countries, entities and individuals, expropriation, nationalisation, renegotiation or nullification of existing contracts and changes in law, tax policy and regulation. Furthermore, while many of the economies in which the Group operates have in recent years performed relatively well compared to many of the economies of Western Europe and North America, there can be no assurance that the relatively favourable economic environments in these markets will continue. The occurrence of any of these risks could result in a material adverse effect on the Group's financial condition, results of operations and prospects.

48 *The Group operates in competitive markets, which may have a material adverse effect on its financial condition, results of operations and prospects*

The Group is subject to significant competition from local banks and other international banks carrying on business in the markets in which it operates, including competitors that may have greater financial and other resources. In addition, the Group may experience increased competition from new entrants in the relevant product or geographic markets and existing competitors may combine to increase their existing market presence or market share. Furthermore, in certain of the Group's markets, it competes against financial institutions that are supported or controlled by governments or governmental bodies and which are required to satisfy certain lending thresholds and other identified targets. In such markets, in order to remain competitive, the Group may not realise the margins which it would otherwise have expected or desired. Regulations may also favour local banks by restricting the ability of international banks, such as the Group, operating in the relevant country to enter the market and/or expand their existing operations. Such restrictions could adversely affect the Group's ability to compete in these markets. In addition, certain competitors may have access to lower cost funding and be able to offer retail deposits on more favourable terms than the Group. Furthermore, the Group's competitors may be better able to attract and retain clients and talent, which may have a negative impact on the Group's competitive position and profitability in the relevant markets. Moreover, many of the international and local banks operating in the Group's markets compete for substantially the same customers as the Group and competition may increase in some or all of the Group's principal markets. The foregoing matters, individually or in combination, may have a material adverse effect on the Group's financial condition, results of operations and prospects.

49 *The Group operates in a highly regulated industry and changes to bank regulations and laws could have an adverse impact on its operations, financial condition or prospects*

The Group's businesses are subject to a complex framework of financial services laws and regulations and associated legal and regulatory risks, including the effects of changes in laws, regulations, policies and voluntary codes of practice. As a result of the financial crisis, there has been a substantially enhanced level of governmental and regulatory intervention and scrutiny, and there have been, and are expected to be, further changes to regulations applying to financial institutions. Additional changes to laws and regulations are under consideration in many jurisdictions. Although the Group works closely with its regulators and regularly monitors the situation, future changes in laws, regulations and fiscal or other policies can be difficult to predict and are beyond the control of the Group. Furthermore, laws and regulations may be adopted, enforced or interpreted in ways that could materially adversely affect the Group's business, financial condition, results of operations and prospects.

Governmental policies and regulatory changes that could adversely impact the Group's business include:

- the monetary, interest rate and other policies of central banks and regulatory authorities;
- general changes in governmental or regulatory policy, or changes in regulatory regimes that may significantly influence investor decisions in particular markets in which the Group operates, may change the structure of those markets and the products offered, or may increase the costs of doing business in those markets;
- changes to other regulatory requirements such as rules on consumer protection and prudential rules relating to capital adequacy and/or liquidity, charging special levies to fund governmental intervention in response to crises (which may not be tax deductible for the Group), separation of certain businesses from deposit-taking and the breaking up of financial institutions that are perceived to be too large for regulators to take the risk of their failure;
- Over The Counter (OTC) Derivative reforms across our markets, designed to contain systemic risk (central clearing, margin requirements, capital) and increase market transparency (real-time reporting, exchange or SEF trading, disclosure and record retention);
- changes in competition and pricing environments;
- further developments in relation to financial reporting including changes in accounting and auditing standards, corporate governance, conduct of business and employee compensation;
- expropriation, nationalisation, confiscation of assets and changes in legislation relating to foreign ownership; and
- other unfavourable political, military or diplomatic developments, producing social instability or legal uncertainty which, in turn, may affect demand for the Group's products and services.

In response to the financial crisis and recent global economic conditions, there has already been a substantial increase in the regulation and supervision of the financial services industry in order to seek to prevent future crises and otherwise ensure the stability of institutions, including the imposition of higher capital and liquidity requirements (including pursuant to Basel III and CRD IV), increased levies and taxes, requirements to centrally clear certain transactions, heightened disclosure standards, further development of corporate governance and employee compensation regimes and restrictions on certain types of transaction structures. (See the paragraphs headed "The Group is subject to the risk of regulators' increased capital and liquidity requirements" and "The European Commission's proposals for the Recovery and Resolution Directive may restrict the Group's business operations and lead to an increase in its costs of doing business" for more detail).

These new requirements could to differing extents significantly impact on the profitability and results of operations of firms operating within the financial services industry, including entities within the Group, or could require those affected to alter their current strategies, prevent the continuation of existing lines of operations, restrict the type or volume of transactions which may be entered into or set limits on, or require the modification of, rates or fees that may be charged. The Group may also face increased compliance costs and limitations on its ability to pursue its business activities.

Whilst there is growing international regulatory cooperation on supervision and regulation of international and EU banking groups, the Group is, and will continue to be, subject to the complexity of complying with existing and new regulatory requirements in each of the jurisdictions in which it operates. Where changes in regulation are made they may not be co-ordinated potentially resulting in the Group having to comply with different and possibly conflicting requirements. The foregoing matters may adversely impact any number of areas of the Group's operations and activities which in turn may have a material adverse effect on its financial condition, results of operations and prospects.

50 The business and operations of the Group may be affected by the provisions of the Banking Act 2009 which gives the UK Treasury and the Bank of England wide-ranging powers to make certain orders in respect of deposit-taking institutions

The Banking Act 2009 came into force on 21 February 2009 and applies to deposit-taking institutions that are incorporated in or formed under the law of any part of the UK (such as SCB). It provides HM Treasury and the Bank of England with powers to deal with banks which are failing or likely to fail to satisfy the threshold conditions within the meaning of section 41(1) and Schedule 6 of the FSMA (which is not currently the case in respect of SCB and which the Group does not consider to be likely) where it is not reasonably likely that action will be taken to satisfy those threshold conditions. The Banking Act 2009 creates a special resolution regime which comprises three stabilisation options and two insolvency procedures. The stabilisation options involve (i) the transfer of a bank or bank holding company (such as SCPLC) into temporary public ownership; (ii) the transfer of all or part of a bank to a private sector purchaser and (iii) the transfer of all or part of a bank to a bridge bank wholly owned by the Bank of England. The insolvency procedures are (i) bank insolvency, designed to ensure that eligible depositors' accounts are transferred to another bank, or that eligible depositors are compensated under the Financial Services Compensation Scheme, followed by winding up of the affairs of the bank so as to achieve the best result for the bank's creditors and (ii) a bank administration procedure designed to ensure that where the transfer of part of a bank to a private sector purchaser or bridge bank is effected in accordance with the special resolution regime, the non-sold or non-transferred bank continues to provide services and facilities to the business which has been transferred to enable the commercial purchaser or transferee to operate effectively. In February 2011, special administration procedures were introduced by the Investment Bank Special Administration Regulations 2011 for UK deposit-taking institutions that have an "investment banking" business. The new procedures are based on the bank insolvency and bank administration procedures under the Banking Act 2009 but additionally take into account special administration objectives.

HM Treasury and the Bank of England must have regard to specified objectives (the protection and enhancement of the stability of the UK financial system, protecting and enhancing public confidence in the stability of the UK banking system, protecting depositors, protecting public funds and avoiding interference with property rights in contravention of the European Convention on Human Rights) when exercising the special resolution regime powers. In addition, the final report of the ICB recommended that authorities should have a primary bail-in power allowing them to impose losses on bail-in bonds (unsecured debt with a term of at least 12 months at the time of issue) in a resolution. The report also recommended that the resolution authorities should have a secondary bail-in power to impose losses on all other unsecured liabilities (including liabilities subject to a floating charge) in a resolution. The ICB has stated that these powers should be exercisable in respect of liabilities outstanding at the time that legislation introducing bail-in comes into effect.

51 Downgrades to the Group's credit ratings or downward changes in outlook could impair the Group's access to funding and the Group's competitive position

The Group's ability to access the capital markets, and the cost of borrowing in these markets, is influenced by the Group's credit ratings. There can be no guarantee that the Group will not be subject to downgrades to its credit ratings and downward changes in outlook. Factors leading to any such downgrade or change in outlook may not be within the control of the Group. A material downward change in the short-term or long-term credit ratings of the Group could impact the volume, price and source of its funding, and this could have a material adverse effect on the Group's profitability, its financial condition, results of operations and prospects.

52 Changes in interest rates, commodity prices, equity prices and other market risks could adversely affect the Group's financial condition, results of operations and prospects

Market risk is the potential for loss of earnings or economic value due to adverse changes in financial market rates or prices. The Group's exposure to market risk arises principally from customer driven transactions.

The primary categories of market risk for the Group are:

- interest rate risk: arising from changes in yield curves, credit spreads and implied volatilities on interest rate options;
- currency exchange risk: arising from changes in exchange rates and implied volatilities on related options;
- commodity price risk: arising from changes in commodity prices and implied volatilities on commodity options, covering energy, precious metals, base metals and agriculture; and
- equity price risk: arising from changes in the prices of equities, equity indices, equity baskets and implied volatilities on related options.

Failure to manage these risks effectively or the occurrence of unexpected events resulting in significant market dislocation could have a material adverse effect on the Group's financial condition, results of operations and prospects.

53 The Group is subject to the risk of exchange rate fluctuations arising from the geographical diversity of its businesses

As the Group's business is conducted in a number of jurisdictions and in a number of foreign currencies, including, but not limited to, Sterling, Korean won, Hong Kong dollars, Singapore dollars, Taiwan dollars, Chinese yuan and Indian rupees, the Group's business is subject to the risk of exchange rate fluctuations. The results of operations of Group companies are reported in the local currencies in which they are domiciled, and these results are then translated into U.S. dollars at the applicable foreign currency exchange rates for inclusion in the Group's consolidated financial statements. The exchange rates between local currencies and the U.S. dollar have been and may continue to be volatile. The Group is therefore exposed to movements in exchange rates in relation to foreign currency receipts and payments, dividend and other income from foreign subsidiaries and branches, reported profits of foreign subsidiaries and branches and the net asset carrying value of foreign investments and risk-weighted assets attributable to foreign currency operations.

Whilst the Group monitors exchange rate movements, it is difficult to predict with accuracy changes in economic or market conditions and to anticipate the effects that such changes could have on the Group and the translation effect against the U.S. dollar of such fluctuations in the exchange rates of the currencies of those countries in which the Group operates, any of which may adversely affect its financial condition, results of operations and prospects.

54 Financial markets volatility globally and in the markets in which the Group operates could result in a material adverse effect on the Group's assets, financial condition, results of operations and prospects

Additional volatility, and further dislocation affecting certain financial markets and asset classes, are factors that may have a material adverse effect on the Group's assets, its financial condition, results of operations and prospects. These factors have had and may have a negative impact on the mark-to-market valuations of assets in the Group's available-for-sale and trading portfolios. In addition, any further deterioration in the performance of the assets underlying the Group's asset backed securities ("ABS") portfolio could lead to additional impairment. The ABS portfolio accounted for approximately 0.7 per cent. of Group assets as at 31 December 2012. Continued market volatility may also negatively impact certain customers exposed to derivative contracts. While the Group seeks to manage customer exposure and risk, the potential losses incurred by certain customers as a result of derivative contracts could lead to an increase in customer disputes and corporate defaults and result in further write-downs or impairments by the Group.

55 Systemic risk resulting from failures by banks, other financial institutions and corporates could adversely affect the Group

Within the financial services industry the default of any institution or corporate could lead to defaults by other institutions. Concerns about, or a default by, one institution could lead to significant liquidity problems, losses or defaults by other institutions because the commercial soundness of many financial institutions may be closely correlated as a result of their credit, trading, clearing or other relationships. This risk is sometimes referred to as "systemic risk" and may adversely affect financial intermediaries, such as clearing agencies, clearing houses, banks, securities firms, other financial institutions and exchanges with whom the Group interacts on a daily basis, which could have an adverse effect on the Group's ability to raise new funding and have a material adverse effect on the Group's business, its financial condition, results of operations and prospects.

56 Country cross-border risk could have a material adverse effect on the Group's financial condition, results of operations and prospects

Country cross-border risk is the risk that the Group will be unable to obtain payment from its customers (sovereign and non-sovereign) or third parties on their contractual obligations as a result of certain actions taken by foreign governments, chiefly relating to convertibility and transferability of foreign currency.

These risks could have a material adverse effect on the Group's financial condition, results of operations and prospects.

57 The Group operates in some markets that have relatively less developed judicial and dispute resolution systems, which could have a material adverse effect on the Group's financial condition, results of operations and prospects

In the less developed markets in which the Group operates, judicial and dispute resolution systems may be less developed than in North America and Western Europe. In case of a breach of contract, there may be difficulties in making and enforcing claims against contractual counterparties.

On the other hand, if claims are made against the Group, there may be difficulties in defending such allegations. If the Group becomes party to legal proceedings in a market with an insufficiently developed judicial system, an adverse outcome to such proceedings could have a material adverse effect on the Group's financial condition, results of operations and prospects.

58 *Hostilities, terrorist attacks or social unrest as well as natural calamities in the markets in which the Group operates could adversely affect the Group's business, results of operations and prospects*

The Group operates in a large number of markets around the world, and its performance is in part reliant on the openness of cross-border trade and capital flows. Geopolitical tensions or conflicts in our footprint could impact trade flows, customers' ability to pay, and the Group's ability to manage capital, liquidity or operations across borders.

Some of the countries in which the Group operates have, from time to time, experienced and/or are currently experiencing social and civil unrest, hostilities both internally and with neighbouring countries and terrorist attacks. Some of those countries have also experienced natural calamities like earthquakes, floods and drought in recent years. These and similar hostilities, tensions and natural disasters could lead to political or economic instability in the markets in which the Group operates and have a material adverse effect on the Group's business, its financial condition, results of operations and prospects.

59 *The structure of the financial regulatory authorities in the UK and the UK regulatory framework that applies to members of the Group is the subject of reform and reorganisation*

In June 2010, the UK Government announced proposals to reform the institutional framework for UK financial regulation. Under these reforms, effective from 1 April 2013 the FSA will cease to exist in its current form and the majority of its existing functions will pass to two new regulators, the PRA and the FCA.

The Financial Services Act, 2012, came into force from 1 April 2013 and is intended to foster a regulatory culture of judgement, expertise and proactive supervision. The UK Government has approved secondary legislation that includes the division of regulated activities between the new authorities, brings LIBOR into regulation, establishes the new 'threshold conditions' that financial services firms must satisfy and bring unregulated parent companies within reach of the regulators.

From 1 April 2013 the PRA will be responsible for the prudential regulation of financial institutions that manage significant risks on their balance sheets (including SCB and the Group), while the FCA will be responsible for the regulation of conduct of business (including SCB and the Group). Draft regulatory approaches, statements of policy, revised rules and memorandum of understandings have also been published setting out how the FCA and PRA will work together within the new regulatory system. The Financial Policy Committee of the Bank of England (the "FPC") will be responsible for identifying, monitoring and taking action to remove or reduce systemic risks with a view to protecting and enhancing the resilience of the UK financial system. Under the Financial Services Act 2012, the FPC has been given a secondary objective to support the economic policies of the Government.

Notwithstanding the preparatory work already undertaken by the FSA, substantial reorganisation of the regulatory framework has the potential to cause administrative and operational disruption for the regulatory authorities concerned. This disruption could have an impact on the resources which the FSA, PRA and FCA are able to devote to the supervision of regulated financial services firms (including the Group) and the nature of their approach to supervision.

It is anticipated that as the regulatory approach of the PRA and FCA evolves there may be future changes in the nature of, or policies for, prudential and conduct of business supervision which differ from the approach taken by the FSA and that this could lead to a period of some uncertainty for members of the Group.

No assurance can be given about the likelihood of further changes to the regulatory regime either: (i) in the UK or other countries; (ii) to the Group's particular business sectors; or (iii) specifically in relation to the Group. Any or all of these factors could have a material adverse effect on the conduct of the business of the Group, its strategy and profitability, and therefore its financial condition, results of operations and prospects.

60 *European Banking Union*

The European Commission adopted proposals on 12 September 2012 for a regulation that will confer specific responsibilities on the European Central Bank (the "ECB") in respect of the prudential supervision of credit institutions. In accordance with the proposals, the ECB will become responsible for the authorisation and supervision of all credit institutions within the eurozone, and will have certain responsibilities for credit institutions incorporated outside of the eurozone that establish a branch or provide services within the eurozone on a cross-border basis. Other EU Member States (such as the UK) will be able to establish close cooperation with the ECB in which case the ECB could become responsible for the authorisation and supervision of credit institutions in such Member States. If the UK established close cooperation with the ECB, or joined the European Monetary Union, the ECB would, under the proposals, become responsible for the supervision of the Group which may differ in significant respects from that carried out by the FSA, PRA and FCA, and which, depending on the circumstances, could have a material adverse effect on the conduct of the business of the Group, its strategy and profitability, and therefore its financial condition, results of operations and prospects.

TAXATION

The information below is of a general nature and is only a summary of the law and practice currently applicable in Hong Kong and the United States. It is intended to give you an overview of what Hong Kong and United States tax you might have to pay if you hold our structured products. It is not complete and we are not giving you any tax advice. You should consult your own tax adviser about the tax consequences of investing in our structured products, particularly if you are subject to special tax rules (for example, if you are a bank, dealer, insurance company or a tax-exempt entity).

HONG KONG

Withholding Tax

We are not required under current law to make any withholding on account of Hong Kong tax from payments in respect of our structured products.

Capital Gains Tax

No capital gains tax is payable in Hong Kong on any capital gains arising from a sale or disposal of our structured products.

Profits Tax

Hong Kong profits tax may be chargeable on any gains arising from a sale or disposal of our structured products where the sale or disposal is or forms part of a trade, profession or business carried on in Hong Kong and the gains are of a Hong Kong source.

Stamp Duty

Our cash-settled structured products are not subject to Hong Kong stamp duty or bearer instrument duty either when issued or on any subsequent transfer.

UNITED STATES

FATCA Withholding

On 18 March 2010, the Hiring Incentives to Restore Employment Act was enacted, including provisions from the Foreign Account Tax Compliance Act (previously defined as “**FATCA**”). FATCA imposes a withholding tax of 30 per cent. on certain U.S. source payments and proceeds from the sale of certain assets that give rise to U.S. source payments, as well as on certain payments by non-U.S. entities (“foreign passthru payments,” which have not yet been defined), to persons that fail to meet requirements under FATCA. This withholding tax may be imposed on (i) payments to the Issuer if it does not enter into and comply with an agreement with the IRS (an “**IRS Agreement**”) to obtain and report information about certain account holders which may include the holders of structured products, or (ii) all or a portion of payments to holders or beneficial owners of structured products, if the Issuer does enter into an IRS Agreement and is unable to obtain the necessary information from those holders or beneficial owners. Withholding under FATCA would be imposed starting (x) 1 January 2014 in respect of certain U.S. source payments made on or after that date and (y) 1 January 2017 in respect of foreign passthru payments or proceeds from the sale of certain assets that give rise to U.S. source payments. If the structured product does not give rise to payments that are treated as “dividend equivalents” (as discussed below under “–Dividend Equivalent Payments”), withholding under FATCA should not be required with respect to payments on such structured products before 1 January 2017. Additionally, withholding under FATCA should not be imposed on payments with respect to such structured

products if they are issued before the date that is six months after the date on which final regulations under FATCA defining the term “foreign passthru payment” are filed. If the structured product gives rise to withholdable U.S.-source payments solely because the structured product gives rise to payments that are treated as “dividend equivalent” payments, withholding under FATCA should not be imposed on payments with respect to such structured products if they are issued before the date that is six months after the date on which such structured products are first treated as giving rise to dividend equivalent payments.

The relevant rules have not yet been fully developed and the future application of FATCA to the Issuer and the holders of structured products is uncertain. It is our intention, subject to further clarification and analysis of the legal requirements associated with entering into relevant legal agreements with the U.S. government, to be a participating foreign financial institution (as defined in FATCA) and conclude IRS Agreements for relevant entities in the Group. As a result of such agreements, holders of structured products may be required to provide certain information or be subject to withholding on certain payments made to them. Regulations issued under FATCA provide an alternative to FATCA compliance for issuers that reside in jurisdictions that have entered into intergovernmental agreements (previously defined as “IGAs”) with the United States. Although the relevant rules have not yet been fully developed, the United States and the United Kingdom have signed an IGA and it is our intention to comply with the relevant reporting requirements imposed therein. However, if the Issuer does not comply with the applicable IGA and does not enter into an IRS Agreement or fails to comply with the IRS Agreement and is therefore subject to the 30 per cent. withholding tax, the Issuer may have less cash to make payments on the structured products.

Pursuant to an applicable IGA or if the Issuer does enter into an IRS Agreement, then to the extent payments are not otherwise excluded from the FATCA regime, an investor that is not a financial institution may be required to provide the information described below or be subject to U.S. withholding tax on a portion of payments on the structured products and the proceeds from their sale.

Investors that (a) are financial institutions, or financial institutions that receive payments on behalf of another person and (b) have not entered an IRS Agreement (or otherwise complied with FATCA) may also be subject to this U.S. withholding tax.

Investors that hold their structured products through a foreign financial institution that has not entered into an IRS Agreement (or otherwise complied with FATCA) may also be subject to this U.S. withholding tax.

Each holder or beneficial owner of structured products may be required to provide satisfactory documentation (i) to establish that it is not a U.S. person, or (ii) if it is a U.S. person, that indicates its name, address and U.S. taxpayer identification number. Each holder or beneficial owner of structured products that is required to provide such information and fails to do so will generally be subject to a U.S. withholding tax on any payments made to that person. A holder or beneficial owner of structured products that fails to provide the necessary information due to a non-U.S. law prohibiting the provision of this information must execute a valid waiver of the relevant non-U.S. law or dispose of the structured products or its interest therein within a reasonable time.

If withholding is required under FATCA, the Issuer would be entitled to withhold taxes without being required to pay any additional amounts with respect to amounts so withheld.

FATCA is particularly complex and its application to the Issuer is uncertain at this time. Each holder of structured products should consult its own tax advisor as to the application of FATCA to an investment in the structured products.

Dividend Equivalent Payments

A “dividend equivalent” payment is treated as a dividend from sources within the U.S. and such payments generally would be subject to a 30 per cent. U.S. withholding tax if paid to a non-U.S. holder. Under proposed U.S. Treasury regulations, certain payments that are contingent upon or determined by reference to U.S. source dividends, including payments reflecting adjustments for (extraordinary) dividends, with respect to equity-linked instruments, including the structured products, may be treated as dividend equivalents. If enacted in their current form, the regulations will impose a withholding tax on payments made on the structured products on or after 1 January 2014 that are treated as dividend equivalents. In that case, the Issuer would be entitled to withhold taxes in addition to the withholding tax described above without being required to pay any additional amounts with respect to amounts so withheld. Further, non-U.S. holders may be required to provide certifications prior to, or upon the sale, redemption or maturity of the structured products in order to minimize or avoid U.S. withholding taxes.

INFORMATION ABOUT SCB AND THE GROUP

You should read this base listing document (and its addendum, if any) in conjunction with the relevant supplemental listing document for updated information about us.

Standard Chartered PLC (previously defined as “SCPLC”), the ultimate holding company of SCB, was incorporated and registered in England and Wales on 18 November 1969 as a company limited by shares. Its ordinary shares and preference shares are listed on the Official List and traded on the London Stock Exchange. SCPLC’s ordinary shares are also listed on the Hong Kong Stock Exchange, and through Indian Depository Receipts on the Bombay Stock Exchange and National Stock Exchange of India. SCPLC operates under the Companies Act 2006 and its registered number is 966425. SCPLC’s registered office is at 1 Aldermanbury Square, London EC2V 7SB, and its principal place of business in the United Kingdom is at 1 Basinghall Avenue, London EC2V 5DD. SCPLC’s telephone number is +44 (0)20 7885 8888. SCPLC adopted new articles of association on 7 May 2010.

SCB was incorporated in England with limited liability by Royal Charter on 29 December 1853. SCB’s issued share capital comprises ordinary shares, all of which are owned by Standard Chartered Holdings Limited, a company incorporated in England and Wales and a wholly-owned subsidiary of SCPLC, non-cumulative irredeemable preference shares of US\$0.01 each, all of which are owned by Standard Chartered Capital Investments LLC, a company incorporated in the United States, and non-cumulative redeemable preference shares of US\$5.00 each, all of which are owned by SCPLC. SCB’s principal office is at 1 Aldermanbury Square, London EC2V 7SB and its principal place of business in the United Kingdom is at 1 Basinghall Avenue, London EC2V 5DD. SCB’s reference number is ZC18.

The Group is a leading international banking group. It has operated for over 150 years in some of the world’s most dynamic markets and earns around 90 per cent. of its income and profits in Asia, Africa and the Middle East. As at 31 December 2012, the Group had a network over 1,700 branches, offices and outlets in 68 markets and over 89,000 employees worldwide.

The Group, through SCB Group, operates two business divisions: Consumer Banking and Wholesale Banking.

Business Divisions

Consumer Banking

Consumer Banking helps meet the evolving financial needs of Private, Small and Medium Enterprise (SME), Priority and Personal banking customers across our franchise. Our customer focused and service approach enables our staff to offer solutions from an innovative range of products and services to build stronger relationships with our customers.

Wholesale Banking

Wholesale Banking provides a wide range of solutions to help corporate and institutional clients facilitate trade and finance across some of the fastest growing markets and trade corridors in today’s global economy. Its focus is on building a client-driven business, being the bank of choice for and in Asia, Africa and the Middle East and leveraging its in-depth local knowledge and extensive cross-border network.

With a solid 150-year track record and on-the-ground expertise, Wholesale Banking provides clients with trade finance, cash management, securities services, foreign exchange, risk management, capital raising and corporate finance solutions.

Geographic Markets

The Group's network covers Asia Pacific, the Middle East, South Asia, Africa, the Americas, the United Kingdom and Europe.

Hong Kong

Hong Kong is the Group's largest market by income and profit before tax, for the year ended 31 December 2012, Hong Kong contributed US\$3,348 million of operating income and US\$1,660 million of profit before tax to the Group.

Singapore

Singapore, is the Group's second largest market by income and profit before tax. For the year ended 31 December 2012 Singapore contributed US\$2,203 million of operating income and US\$966 million of profit before tax to the Group.

Other Asia Pacific

For the year ended 31 December 2012, the Other Asia Pacific region contributed US\$3,960 million of operating income and US\$1,242 million of profit before tax to the Group.

The Group continues to be well positioned in a range of fast-expanding markets in the Asia Pacific region. In 2012, the Group opened 19 branches in China and opened its 100th branch in China in January 2013. SCB and Agricultural Bank of China signed a memorandum of understanding in 2010 establishing a strategic partnership to explore the joint development of business opportunities.

The acquisition of Hsinchu International Bank in 2006 (subsequently renamed Standard Chartered Bank (Taiwan) Limited) provides the Group with a substantial banking network in Taiwan. In Indonesia, SCB increased its stake in PT Bank Permata in 2006. Our stake in Permata is now 44.51 per cent.

Korea

The Group acquired Korea First Bank, a major banking group in the Republic of Korea (South Korea) in April 2005 and completed the rebranding as SC First Bank in September 2005. In November 2005, SCB's branch business in South Korea was integrated with SC First Bank. In January 2012, SC First Bank was rebranded Standard Chartered Bank Korea Limited.

For the year ended 31 December 2012, Korea contributed operating income of US\$1,852 million and profit before tax of US\$514 million to the Group.

India

In India (including Nepal), the Group operates the largest foreign branch network, with 99 branches in 42 cities.

For the year ended 31 December 2012, India contributed operating income of US\$1,585 million and profit before tax of US\$676 million to the Group and is the Group's third largest contributor of profits.

Middle East and Other South Asia

For the year ended 31 December 2012, Middle East and Other South Asia contributed operating income of US\$2,234 million and profit before tax of US\$786 million to the Group. The United Arab Emirates represents over 50 per cent. of Middle East and South Asia income as at 31 December 2012.

Africa

As at 31 December 2012, the Group has a presence in 15 countries in Africa, of which 8 markets delivered over US\$100 million of income in 2012, up from 7 in 2011 and Nigeria, Kenya and Ghana, delivering over US\$200 million. For the year ended 31 December 2012, Africa contributed operating income of US\$1,593 million and profit before tax of US\$771 million to the Group. The Group opened 27 new branches in Africa in 2012.

Americas, United Kingdom and Europe

In the Americas, United Kingdom and Europe, the Group is focused on supporting our clients' cross border business within our footprint of Asia, Africa and the Middle East. Our strength as a trade and commercial bank has allowed us to assist Western clients to do business in the growth markets of Asia, and Asian clients to invest in the West. The region is now the largest contributor to Group Wholesale Banking income as, increasingly, we are acting as a bridge for our clients to and from Asia, Africa and the Middle East. For the year ended 31 December 2012 the region contributed operating income of US\$2,296 million and operating profit before tax of US\$261 million.

Subsidiaries

As at 31 December 2012, the principal subsidiary undertakings of SCB and principally engaged in the business of banking and provision of other financial services, were as follows: Standard Chartered Bank (Hong Kong) Limited, Standard Chartered Bank Korea Limited, Standard Chartered Bank Malaysia Berhad, Standard Chartered Bank (Thai) Public Company Limited, Standard Chartered Bank (China) Limited, Standard Chartered Bank (Taiwan) Limited, Standard Chartered Bank (Pakistan) Limited, Standard Chartered Bank Nigeria Limited, Standard Chartered Bank Kenya Limited, and Standard Chartered Private Equity Limited.

All the above are directly or indirectly wholly owned subsidiaries of SCB, except Standard Chartered Bank (Thai) Public Company Limited, which is 99.99 per cent. owned by SCB, Standard Chartered Bank (Pakistan) Limited, which is 98.99 per cent. owned by SCB and Standard Chartered Bank Kenya Limited, which is 73.9 per cent. owned by SCB. Standard Chartered Bank (Hong Kong) Limited is 49 per cent. owned by Standard Chartered Holdings Limited, SCB's parent company.

Directors

As at 31 December 2012, the directors of SCB and their respective principal outside activities, where significant to SCB, are as follows:

P A Sands *Chairman of SCB, Group Chief Executive of SCPLC and Lead Non-Executive Director of the Board of the Department of Health*

J S Bindra *Director, Group Executive Director of SCPLC and Chief Executive Officer, Asia*

S P Bertamini *Director, Group Executive Director of SCPLC and Chief Executive Officer, Consumer Banking*

R H Meddings *Director, Group Finance Director of SCPLC and Non-executive Director of 3i Group plc*

T J Miller *Director and Non-Executive Director of PageGroup and Chairman of Optitune PLC. Resigned as director of SCB on 1 April 2013.*

A M G Rees *Director, Group Executive Director of SCPLC and Chief Executive Officer, Wholesale Banking*

V Shankar *Director, Group Executive Director of SCPLC, CEO Middle East, Africa, Europe and Americas and Non-Executive Director of Majid Al Futtaim Holding LLC*

On 14 January 2013, the following individuals were appointed directors of SCB:

T J Clarke *Director and Non-Executive Director of British Sky Broadcasting Group plc*

R F Goulding *Director*

J P Verplancke *Director*

STATUTORY AND GENERAL INFORMATION ABOUT US

NO MATERIAL ADVERSE CHANGE

Save for any that has been disclosed in this base listing document, there has been no material adverse change in our financial or trading position since the date of our most recently published audited financial statements that would have a material adverse effect on our ability to perform our obligations in the context of any issue of structured products.

LITIGATION

Save for any that has been disclosed in this base listing document (including the paragraphs headed “Regulatory changes and compliance” in the section headed “Financial Information Relating to SCB” as set out in Annex 4 to this base listing document), we are not aware, to the best of our knowledge and belief, of any litigation or claims of material importance in the context of any issue of structured products pending or threatened against SCB Group.

FINANCIAL INFORMATION ABOUT THE ISSUER

SCB publishes its directors’ report and the audited financial statements of SCB Group and SCB following the end of each of its financial year. Its financial year end is 31 December.

As at the date of this document, KPMG Audit Plc, our independent accountants and auditors, have given and have not withdrawn their written consent to the inclusion of their report dated 5 March 2013 (which relates to our financial statements for the year ended 31 December 2012) in this base listing document in the form and context in which they are included. Their report was not prepared for the purposes of this base listing document.

KPMG Audit Plc do not have any shareholding in us or any of our subsidiaries nor do they have the right (whether legally enforceable or not) to subscribe for or to nominate persons to subscribe for our securities or securities of any of our subsidiaries.

OUR PROCESS AGENT

Standard Chartered Bank (Hong Kong) Limited of 32/F, 4-4A Des Voeux Road, Central, Hong Kong has been authorised to accept, on our behalf, service of process and any other notices required to be served on us in Hong Kong.

ANNEX 1

PART A – TERMS AND CONDITIONS OF CASH-SETTLED STOCK WARRANTS

These master terms and conditions will, together with the supplemental provisions contained in the relevant supplemental listing document and subject to completion and amendment, be endorsed on the back of the relevant global certificate. The applicable supplemental listing document in relation to the issue of any series of Warrants may specify other terms and conditions which shall, to the extent so specified or to the extent inconsistent with these master terms and conditions, replace or modify these master terms and conditions for the purpose of such series of Warrants. Capitalised terms used in these master terms and conditions and not otherwise defined therein shall have the meaning given to them in the relevant supplemental listing document.

1 Form; Status; Transfer and Title

- (A) The Warrants (which expression shall, unless the context otherwise requires, include any further warrants issued pursuant to Condition 13) relating to the Shares of the Company are issued in registered form subject to and with the benefit of the instrument dated 25 June 2010 (the “**Instrument**”) made by Standard Chartered Bank (the “**Issuer**”).

A copy of the Instrument is available for inspection at the offices of Standard Chartered Bank (Hong Kong) Limited (the “**Sponsor**”) at 15th Floor, Two International Finance Centre, 8 Finance Street, Central, Hong Kong or such other place as notified pursuant to Condition 10 from time to time. The Warrantholders (as hereinafter defined) are entitled to the benefit of, are bound by and are deemed to have notice of, all the provisions of the Instrument.

- (B) The settlement obligations of the Issuer in respect of the Warrants represent general unsecured contractual obligations of the Issuer and of no other person which rank, and will rank, equally among themselves and pari passu with all other present and future unsecured and unsubordinated contractual obligations of the Issuer, except for obligations accorded preference by mandatory provisions of applicable law.

Warrants represent general contractual obligations of the Issuer, and are not, nor is it the intention (expressed, implicit or otherwise) of the Issuer to create by the issue of Warrants, deposit liabilities of the Issuer or a debt obligation of any kind.

- (C) Transfers of Warrants may be effected only in Board Lots or integral multiples thereof in the Central Clearing and Settlement System (“**CCASS**”) in accordance with the General Rules of CCASS and the CCASS Operational Procedures in effect from time to time.
- (D) Each person who is for the time being shown in the register kept by or on behalf of the Issuer outside of Hong Kong as the holder shall be treated by the Issuer as the absolute owner and holder of the Warrants. The expression “**Warrantholder**” shall be construed accordingly.
- (E) Trading in Warrants on The Stock Exchange of Hong Kong Limited (the “**Stock Exchange**”) shall be suspended prior to the Expiry Date in accordance with the requirements of the Stock Exchange.
- (F) The term “**Warrants**” refers to the Warrants set out in the relevant Supplemental Listing Document.

2 Warrant Rights and Exercise Expenses

- (A) Every Board Lot entitles the Warrantholder, upon compliance with Condition 4, to payment of the Cash Settlement Amount (as defined in Condition 4(D)), if any, minus the determined Exercise Expenses (as defined in Condition 2(B)). If the Cash Settlement Amount is equal to or less than the determined Exercise Expenses, no amount is payable by the Issuer.
- (B) The Warrantholder will be required to pay all charges which are incurred in respect of the exercise of the Warrants (the “**Exercise Expenses**”). To effect such payment, an amount equivalent to the Exercise Expenses will be deducted by the Issuer from the Cash Settlement Amount in accordance with Condition 4(B).

3 Automatic Exercise

- (A) Any Warrant in respect of which the Cash Settlement Amount would be payable by the Issuer if exercised on the Expiry Date shall be deemed to be automatically exercised on the Expiry Date (the “**Automatic Exercise**”).
- (B) Any Warrant which has not been automatically exercised in accordance with Condition 3(A) shall expire immediately without value thereafter and all rights of the Warrantholder and obligations of the Issuer with respect to such Warrant shall cease.
- (C) In these terms and conditions, “**Business Day**” means a day (excluding Saturdays) on which the Stock Exchange is scheduled to open for dealings in Hong Kong and banks are open for business in Hong Kong.

4 Exercise of Warrants

- (A) Warrants may only be exercised in Board Lots or integral multiples thereof.
- (B) An irrevocable authorisation is deemed to be given to the Issuer to deduct any determined Exercise Expenses from the Cash Settlement Amount and an undertaking to pay any Exercise Expenses not deducted from the Cash Settlement Amount. Any Exercise Expenses which have not been determined by the Issuer on the Expiry Date shall be notified as soon as practicable after determination thereof by the Issuer to the Warrantholder and shall be paid by the Warrantholder forthwith in immediately available funds no later than 3 Business Days after the Warrantholder receives notice of any unpaid Exercise Expenses.
- (C) Following the Expiry Date the Global Certificate will be cancelled.
- (D) Subject to the Automatic Exercise in accordance with Condition 3(A), the Issuer will as soon as practicable and not later than the Settlement Date in accordance with these terms and conditions procure payment of the aggregate Cash Settlement Amount minus the determined Exercise Expenses for all Warrants deemed exercised, electronically through CCASS by crediting the relevant bank account of the Warrantholder as appearing in the register kept by or on behalf of the Issuer.

Subject to adjustment as provided in Condition 6, “**Cash Settlement Amount**” per Board Lot means an amount in the Settlement Currency calculated by the Issuer in accordance with the following formula:

In the case of a series of Call Warrants:

$$\text{“Cash Settlement Amount” per Board Lot} = \frac{\text{Entitlement} \times (\text{Average Price} - \text{Exercise Price}) \times \text{one Board Lot}}{\text{Number of Warrant(s) per Entitlement}}$$

In the case of a series of Put Warrants:

$$\text{“Cash Settlement Amount” per Board Lot} = \frac{\text{Entitlement} \times (\text{Exercise Price} - \text{Average Price}) \times \text{one Board Lot}}{\text{Number of Warrant(s) per Entitlement}}$$

“**Average Price**” shall be the arithmetic mean of the closing prices of one Share, as derived from the daily quotation sheet of the Stock Exchange, subject to any adjustments to such closing prices as may be necessary to reflect any capitalisation, rights issue, distribution or the like in respect of each Valuation Date.

“**CCASS Settlement Day**” has the meaning ascribed to the term “Settlement Day” in the General Rules of CCASS and the CCASS Operational Procedures in effect from time to time, subject to such modification and amendment prescribed by Hong Kong Securities Clearing Company Limited from time to time.

“**Entitlement**” means the number of Shares to which the Warrants relate, as specified in the relevant Supplemental Listing Document.

“**Market Disruption Event**” means:

- (1) the occurrence or existence on any Valuation Date during the one-half hour period that ends at the close of trading of any suspension of or limitation imposed on trading (by reason of movements in price exceeding limits permitted by the Stock Exchange or otherwise) on the Stock Exchange in (i) the Shares or (ii) any options or futures contracts relating to the Shares if, in any such case, such suspension or limitation is, in the determination of the Issuer, material;
- (2) the issuance of the tropical cyclone warning signal number 8 or above or the issuance of a “BLACK” rainstorm signal on any day which either (i) results in the Stock Exchange being closed for trading for the entire day; or (ii) results in the Stock Exchange being closed prior to its regular time for close of trading for the relevant day (for the avoidance of doubt, in the case when the Stock Exchange is scheduled to open for the morning trading session only, closed prior to its regular time for close of trading for the morning session), PROVIDED THAT there shall be no Market Disruption Event solely by reason of the Stock Exchange opening for trading later than its regular time for opening of trading on any day as a result of the tropical cyclone warning signal number 8 or above or the “BLACK” rainstorm signal having been issued; or
- (3) a limitation or closure of the Stock Exchange due to any unforeseen circumstances.

“**Settlement Currency**” means the currency specified in the relevant Supplemental Listing Document.

“**Settlement Date**” means the third CCASS Settlement Day after the later of: (i) the Expiry Date; and (ii) the day on which the Average Price is determined in accordance with these terms and conditions.

“**Valuation Date**” means each of the five Business Days immediately preceding the Expiry Date.

If the Issuer determines, in its sole and absolute discretion, that a Market Disruption Event has occurred on any Valuation Date, then that Valuation Date shall be postponed until the first succeeding Business Day on which there is no Market Disruption Event irrespective of whether that postponed Valuation Date would fall on a Business Day that already is or is deemed to be a Valuation Date. For the avoidance of doubt, in the event that a Market Disruption Event has occurred and a Valuation Date is postponed as aforesaid, the closing price of the Shares on the first succeeding Business Day will be used more than once in determining the Average Price, so that in no event shall there be less than five closing prices used to determine the Average Price.

If the postponement of a Valuation Date as aforesaid would result in the Valuation Date falling on or after the Expiry Date, then:

- (i) the Business Day immediately preceding the Expiry Date (the “**Last Valuation Date**”) shall be deemed to be the Valuation Date notwithstanding the Market Disruption Event; and
- (ii) the Issuer shall determine the closing price of the Shares on the basis of its good faith estimate of the price that would have prevailed on the Last Valuation Date but for the Market Disruption Event.

Any payment made pursuant to this Condition 4(D) shall be delivered at the risk and expense of the Warrantholder to the Warrantholder, or such bank, broker or agent in Hong Kong (if any) as is recorded on the register.

- (E) If as a result of an event beyond the control of the Issuer, it is not possible for the Issuer to procure payment electronically through CCASS by crediting the relevant bank account of the Warrantholder on the original Settlement Date (“**Settlement Disruption Event**”), the Issuer shall use its reasonable endeavours to procure payment electronically through CCASS by crediting the relevant bank account of the Warrantholder as soon as reasonably practicable after the original Settlement Date. The Issuer will not be liable to the Warrantholder for any interest in respect of the amount due or any loss or damage that such Warrantholder may suffer as a result of the existence of a Settlement Disruption Event, nor shall the Issuer be liable under any circumstances for any acts or defaults of CCASS in relation to the performance of its duties in relation to the Warrants.
- (F) These terms and conditions shall not be construed so as to give rise to any relationship of agency or trust between the Issuer or its agent (including the Sponsor) or nominee and the Warrantholder and neither the Stock Exchange, the Issuer nor its agent (including the Sponsor) or nominee shall owe any duty of a fiduciary nature to the Warrantholder.

None of the Stock Exchange or the Issuer shall have any responsibility for any errors or omissions in the calculation and dissemination of any variables published by a third party and used in any calculation or determination made pursuant to these terms and conditions or in the calculation of the Cash Settlement Amount arising from such errors or omissions.

The Issuer’s obligations to pay the Cash Settlement Amount shall be discharged by payment in accordance with Condition 4(D) above.

5 Sponsor

- (A) The Sponsor will not assume any obligation or duty to or any relationship or agency or trust for the Warrantholders.
- (B) The Issuer reserves the right, subject to the appointment of a successor, at any time to vary or terminate the appointment of the Sponsor and to appoint another sponsor provided that it will at all times maintain a sponsor in Hong Kong for so long as the Warrants are listed on the Stock Exchange. Notice of any such termination or appointment of the Sponsor will be given to the holder in accordance with Condition 10.

6 Adjustments

Adjustments may be made by the Issuer to the terms of the Warrants (including, but not limited to, the Exercise Price and the Entitlement) on the basis of the following provisions:

- (A) (i) If and whenever the Company shall, by way of Rights (as defined below), offer new Shares for subscription at a fixed subscription price to the holders of existing Shares pro rata to existing holdings (a “**Rights Offer**”), the Exercise Price and the Entitlement shall be adjusted on the Business Day on which the trading in the Shares of the Company becomes ex-entitlement in accordance with the following formulae:

The Entitlement will be adjusted to:

$$\text{Adjusted Entitlement} = \text{Adjustment Factor} \times E$$

The Exercise Price will be adjusted to:

$$\text{Adjusted Exercise Price} = \frac{1}{\text{Adjustment Factor}} \times X$$

Where:

$$\text{Adjustment Factor} = \frac{1 + M}{1 + (R/S) \times M}$$

E: Existing Entitlement immediately prior to the Rights Offer

X: Existing Exercise Price immediately prior to the Rights Offer

S: Cum-Rights Share price, being the closing price of an existing Share, as derived from the daily quotation sheet of the Stock Exchange on the last Business Day on which the Shares are traded on a cum-rights basis

R: Subscription price per new Share specified in the Rights Offer plus an amount equal to any dividends or other benefits foregone to exercise the Right

M: Number of new Shares per existing Share (whether a whole or a fraction) each holder of an existing Share is entitled to subscribe or have

For the purposes of these terms and conditions, “**Rights**” means the right(s) attached to each existing Share or needed to acquire one new Share (as the case may be) which are given to a holder of existing Shares to subscribe at a fixed subscription price for new Shares pursuant to the Rights Offer (whether by the exercise of one Right, a part of a Right or an aggregate number of Rights).

- (ii) The Adjusted Exercise Price (which shall be rounded to the nearest 0.001) shall take effect on the same day that the Entitlement is adjusted.
- (B) (i) If and whenever the Company shall make an issue of Shares credited as fully paid to holders of Shares generally by way of capitalisation of profits or reserves (other than pursuant to a scrip dividend or similar scheme for the time being operated by the Company or otherwise in lieu of a cash dividend) (and without any payment or other consideration being made or given by such holders) (a “**Bonus Issue**”), the Entitlement and the Exercise Price will be adjusted, subject to Condition 6(B)(iii), on the Business Day on which the trading in the Shares of the Company becomes ex-entitlement in accordance with the following formulae:

The Entitlement will be adjusted to:

$$\text{Adjusted Entitlement} = \text{Adjustment Factor} \times E$$

The Exercise Price will be adjusted to:

$$\text{Adjusted Exercise Price} = \frac{1}{\text{Adjustment Factor}} \times X$$

Where:

$$\text{Adjustment Factor} = 1 + M$$

E: Existing Entitlement immediately prior to the Bonus Issue

X: Existing Exercise Price immediately prior to the Bonus Issue

M: Number of additional Shares (whether a whole or a fraction) received by a holder of existing Shares for each Share held prior to the Bonus Issue

- (ii) The Adjusted Exercise Price (which shall be rounded to the nearest 0.001) shall take effect on the same day that the Entitlement is adjusted.
- (iii) For the purposes of Conditions 6(A) and 6(B), the Issuer may determine that no adjustment will be made if the adjustment to the Entitlement is 1 per cent. or less of the Entitlement immediately prior to the adjustment, all as determined by the Issuer.
- (C) If and whenever the Company shall subdivide its outstanding share capital into a greater number of shares or consolidate its outstanding share capital into a smaller number of shares, the Entitlement shall be increased and the Exercise Price shall be decreased (in the case of a subdivision) or the Entitlement shall be decreased and the Exercise Price shall be increased (in the case of a consolidation) accordingly, in each case on the day on which the relevant subdivision or consolidation shall have taken effect. The Adjusted Exercise Price shall be rounded to the nearest 0.001.
- (D) If it is announced that the Company is to or may merge or consolidate with or into any other corporation (including becoming, by agreement or otherwise, a subsidiary of or controlled by any person or corporation) (except where the Company is the surviving corporation in a merger or consolidation) or that it is to or may sell or transfer all or substantially all of its assets, the rights attaching to the Warrants may in the sole and absolute discretion of the Issuer be amended no later than the Business Day preceding the consummation of such merger, consolidation, sale or transfer (each a “**Restructuring Event**”) (as determined by the Issuer in its sole and absolute discretion).

The rights attaching to the Warrants after the adjustment shall, after such Restructuring Event, relate to the number of shares of the corporation(s) resulting from or surviving such Restructuring Event or other securities (the “**Substituted Securities**”) and/or cash offered in substitution for the affected Shares, as the case may be, to which the holder of such number of Shares to which the Warrants related immediately before such Restructuring Event would have been entitled upon such Restructuring Event. Thereafter the provisions hereof shall apply to such Substituted Securities, provided that any Substituted Securities may, in the sole and absolute discretion of the Issuer, be deemed to be replaced by an amount in the relevant currency equal to the market value or, if no market value is available, fair value, of such Substituted Securities in each case as determined by the Issuer as soon as practicable after such Restructuring Event is effected.

For the avoidance of doubt, any remaining Shares shall not be affected by this paragraph (D) and, where cash is offered in substitution for Shares or is deemed to replace Substituted Securities as described above, references in these terms and conditions to the Shares shall include any such cash.

- (E) Generally, no adjustment will be made for an ordinary cash dividend (whether or not it is offered with a scrip alternative). For any other forms of cash distribution (each a “**Cash Distribution**”) announced by the Company, such as a cash bonus, special dividend or extraordinary dividend, no adjustment will be made unless the value of the Cash Distribution accounts for 2 per cent. or more of the Share’s closing price on the day of announcement by the Company.

If and whenever the Company shall make a Cash Distribution credited as fully paid to the holders of Shares generally, the Exercise Price and the Entitlement shall be adjusted to take effect on the Business Day on which trading in the Shares becomes ex-entitlement (each a “**Dividend Adjustment Date**”) in accordance with the following formulae:

The Entitlement will be adjusted to:

$$\text{Adjusted Entitlement} = \text{Adjustment Factor} \times E$$

The Exercise Price will be adjusted to:

$$\text{Adjusted Exercise Price} \text{ (which shall be rounded to the nearest 0.001)} = \frac{1}{\text{Adjustment Factor}} \times X$$

Where:

$$\text{Adjustment Factor} = \frac{S - OD}{S - OD - CD}$$

E: Existing Entitlement immediately prior to the relevant Cash Distribution

X: Existing Exercise Price immediately prior to the relevant Cash Distribution

S: The closing price of a Share, as derived from the daily quotation sheet of the Stock Exchange on the Business Day immediately prior to the Dividend Adjustment Date

OD: Amount of ordinary cash dividend per Share (applicable only if the date on which trading in the Shares becomes ex-entitlement in respect of the ordinary cash dividend is the same as the Dividend Adjustment Date)

CD: Amount of the relevant Cash Distribution per Share

- (F) Without prejudice to and notwithstanding any prior adjustment(s) made pursuant to the applicable terms and conditions, the Issuer may (but shall not be obliged to) make such other adjustments to the terms and conditions of the Warrants as appropriate where any event (including the events as contemplated in the applicable terms and conditions) occurs and irrespective of, in substitution for, or in addition to the provisions contemplated in applicable terms and conditions, provided that such adjustment is: (a) not materially prejudicial to the interests of the Warrantholders generally (without considering the circumstances of any individual Warrantholder or the tax or other consequences of such adjustment in any particular jurisdiction); or (b) determined by the Issuer in good faith to be appropriate and commercially reasonable.
- (G) The Issuer shall determine any adjustment or amendment and its determination shall be conclusive and binding on the Warrantholders save in the case of manifest error. Notice of any adjustments or amendments shall be given to the Warrantholders in accordance with Condition 10 as soon as practicable after the determination thereof.

7 Purchase by the Issuer

The Issuer and any of its affiliates may purchase Warrants at any time on or after the date of their issue and any Warrants which are so purchased may be surrendered for cancellation or offered from time to time in one or more transactions in the over-the-counter market or otherwise at prevailing market prices or in negotiated transactions, at the sole and absolute discretion of the Issuer or any such affiliate, as the case may be.

8 Global Certificate

A global certificate (the “**Global Certificate**”) representing the Warrants will be deposited within CCASS and registered in the name of HKSCC Nominees Limited (or its successors) or another nominee of Hong Kong Securities Clearing Company Limited. The Global Certificate will not be exchangeable for definitive certificates.

9 Meeting of Warrantholders; Modification

- (A) *Meetings of Warrantholders.* Notices for convening meetings to consider any matter affecting the Warrantholders’ interests will be given to the Warrantholders in accordance with the provisions of Condition 10.

Every question submitted to a meeting of the Warrantholders shall be decided by poll. A meeting may be convened by the Issuer or by the Warrantholders holding not less than 10 per cent. of the Warrants for the time being remaining unexercised. The quorum at any such meeting for passing an Extraordinary Resolution will be two or more persons (including any nominee appointed by the Warrantholders) holding or representing not less than 25 per cent. of the Warrants for the time being remaining unexercised, or at any adjourned meeting two or more persons (including any nominee appointed by the Warrantholders) being or representing Warrantholders whatever the number of Warrants so held or represented.

“**Extraordinary Resolution**” means a resolution passed at a duly convened meeting by not less than three-quarters of the votes cast by such Warrantholders as, being entitled to do so, vote in person or by proxy.

An Extraordinary Resolution passed at any meeting of the Warrantholders shall be binding on all the holders of the Warrants, whether or not they are present at the meeting.

Resolutions can be passed in writing without a meeting of the Warrantholders being held if passed unanimously.

Where the Warrantholder is a clearing house recognised by the laws of Hong Kong or its nominee(s), it may authorise such person or person(s) as it thinks fit to act as its representative(s) or proxy(ies) at any Warrantholders' meeting provided that, if more than one person is so authorised, the authorisation or proxy form must specify the number of Warrants in respect of which each such person is so authorised. Each person so authorised will be entitled to exercise the same powers and right, including the right to vote on a show of hands, on behalf of the recognised clearing house or its nominee(s) as that clearing house or its nominee(s) as if he was an individual Warrantholder.

- (B) *Modification.* The Issuer may, without the consent of the Warrantholders, effect any modification of the terms and conditions of the Warrants or the Instrument which, in the opinion of the Issuer, is (i) not materially prejudicial to the interests of the Warrantholders generally (without considering the circumstances of any individual Warrantholder or the tax or other consequences of such modification in any particular jurisdiction); (ii) of a formal, minor or technical nature; (iii) made to correct a manifest error; or (iv) necessary in order to comply with mandatory provisions of the laws or regulations of Hong Kong. Any such modification shall be binding on the Warrantholders and shall be notified to them by the Issuer as soon as practicable thereafter in accordance with Condition 10.

10 Notices

All notices in English and Chinese to the Warrantholders will be validly given if published on the website of the Hong Kong Exchanges and Clearing Limited. In such circumstances, the Issuer shall not be required to dispatch copies of the notice to the Warrantholders.

11 Liquidation

In the event of a liquidation or dissolution or winding up of the Company or the appointment of a liquidator, receiver or administrator or analogous person under applicable law in respect of the whole or substantially the whole of the undertaking, property or assets of the Company, all unexercised Warrants will lapse and shall cease to be valid for any purpose, in the case of a voluntary liquidation, on the effective date of the resolution and, in the case of an involuntary liquidation or dissolution, on the date of the relevant court order or, in the case of the appointment of a liquidator or receiver or administrator or analogous person under applicable law in respect of the whole or substantially the whole of the undertaking, property or assets, on the date when such appointment is effective but subject (in any such case) to any contrary mandatory requirement of law.

12 Delisting of Company

- (A) If at any time the Shares cease to be listed on the Stock Exchange, the Issuer shall give effect to these terms and conditions in such manner and make such adjustments to the rights attaching to the Warrants as it shall, in its sole and absolute discretion, consider appropriate to ensure, so far as it is reasonably able to do so, that the interests of the Warrantholders generally are not materially prejudiced as a consequence of such delisting (without considering the individual circumstances of the Warrantholder or the tax or other consequences that may result in any particular jurisdiction).
- (B) Without prejudice to the generality of Condition 12(A), where the Shares are or, upon the delisting, become, listed on any other stock exchange, these terms and conditions may, in the sole and absolute discretion of the Issuer, be amended to the extent necessary to

allow for the substitution of that other stock exchange in place of the Stock Exchange and the Issuer may, without the consent of the Warrantholders, make such adjustments to the entitlements of the Warrantholders on exercise (including, if appropriate, by converting foreign currency amounts at prevailing market rates into amounts in the relevant currency) as it shall consider appropriate in the circumstances.

- (C) Any adjustment, amendment or determination made by the Issuer pursuant to this Condition 12 shall be conclusive and binding on the Warrantholders save in the case of manifest error. Notice of any adjustments or amendments shall be given to the Warrantholders in accordance with Condition 10 as soon as practicable after they are determined.

13 Further Issues

The Issuer shall be at liberty from time to time, without the consent of the Warrantholders, to create and issue further warrants, upon such terms as to issue price, commencement of the exercise period and otherwise as the Issuer may determine so as to form a single series with the Warrants.

14 Illegality or Impracticability

The Issuer is entitled to terminate the Warrants if it determines in good faith and in a commercially reasonable manner that, for reasons beyond its control, it has become or it will become illegal or impracticable:

- (a) for it to perform its obligations under the Warrants, in whole or in part as a result of:
 - (i) the adoption of, or any change in, any relevant law or regulation (including any tax law); or
 - (ii) the promulgation of, or any change in, the interpretation by any court, tribunal, governmental, administrative, legislative, regulatory or judicial authority or power with competent jurisdiction of any relevant law or regulation (including any tax law),(each of (i) and (ii), a “**Change in Law Event**”); or
- (b) for it or any of its affiliates to maintain the Issuer’s hedging arrangements with respect to the Warrants due to a Change in Law Event.

Upon the occurrence of a Change in Law Event, the Issuer will, if and to the extent permitted by the applicable law or regulation, pay to each Warrantholder a cash amount that the Issuer determines in good faith and in a commercially reasonable manner to be the fair market value in respect of each Warrant held by such Warrantholder immediately prior to such termination (ignoring such illegality or impracticability) less the cost to the Issuer of unwinding any related hedging arrangement as determined by the Issuer in its sole and absolute discretion. Payment will be made in such manner as shall be notified to the Warrantholders in accordance with Condition 10.

15 Good Faith and Commercially Reasonable Manner

Any exercise of discretion by the Issuer under these terms and conditions will be made in good faith and in a commercially reasonable manner.

16 Governing Law

The Warrants and the Instrument will be governed by and construed in accordance with the laws of the Hong Kong Special Administrative Region of the People's Republic of China ("**Hong Kong**"). The Issuer and the Warrantholder (by its acquisition of the Warrants) shall be deemed to have submitted for all purposes in connection with the Warrants and the Instrument to the non-exclusive jurisdiction of the courts of Hong Kong.

17 Language

In the event of any inconsistency between the English version and Chinese translation of these terms and conditions, the English version shall govern and prevail.

Sponsor

Standard Chartered Bank (Hong Kong) Limited
32/F, 4-4A Des Voeux Road Central
Hong Kong

PART B – TERMS AND CONDITIONS OF CASH-SETTLED INDEX WARRANTS

These master terms and conditions will, together with the supplemental provisions contained in the relevant supplemental listing document and subject to completion and amendment, be endorsed on the back of the relevant global certificate. The applicable supplemental listing document in relation to the issue of any series of Warrants may specify other terms and conditions which shall, to the extent so specified or to the extent inconsistent with these master terms and conditions, replace or modify these master terms and conditions for the purpose of such series of Warrants. Capitalised terms used in these master terms and conditions and not otherwise defined therein shall have the meaning given to them in the relevant supplemental listing document.

1 Form; Status; Transfer and Title

- (A) The Warrants (which expression shall, unless the context otherwise requires, include any further warrants issued pursuant to Condition 11) relating to the Index as published by the Index Compiler are issued in registered form subject to and with the benefit of the instrument dated 25 June 2010 (the “**Instrument**”) made by Standard Chartered Bank (the “**Issuer**”).

A copy of the Instrument is available for inspection at the offices of Standard Chartered Bank (Hong Kong) Limited (the “**Sponsor**”) at 15th Floor, Two International Finance Centre, 8 Finance Street, Central, Hong Kong or such other place as notified pursuant to Condition 10 from time to time. The Warrantholders (as hereinafter defined) are entitled to the benefit of, are bound by and are deemed to have notice of, all the provisions of the Instrument.

- (B) The settlement obligations of the Issuer in respect of the Warrants represent general unsecured contractual obligations of the Issuer and of no other person which rank, and will rank, equally among themselves and pari passu with all other present and future unsecured and unsubordinated contractual obligations of the Issuer, except for obligations accorded preference by mandatory provisions of applicable law.

Warrants represent general contractual obligations of the Issuer, and are not, nor is it the intention (expressed, implicit or otherwise) of the Issuer to create by the issue of Warrants, deposit liabilities of the Issuer or a debt obligation of any kind.

- (C) Transfers of Warrants may be effected only in Board Lots or integral multiples thereof in the Central Clearing and Settlement System (“**CCASS**”) in accordance with the General Rules of CCASS and the CCASS Operational Procedures in effect from time to time.
- (D) Each person who is for the time being shown in the register kept by or on behalf of the Issuer outside of Hong Kong as the holder shall be treated by the Issuer as the absolute owner and holder of the Warrants. The expression “**Warrantholder**” shall be construed accordingly.
- (E) Trading in Warrants on The Stock Exchange of Hong Kong Limited (the “**Stock Exchange**”) shall be suspended prior to the Expiry Date in accordance with the requirements of the Stock Exchange.
- (F) The term “**Warrants**” refers to the Warrants set out in the relevant Supplemental Listing Document.

2 Warrant Rights and Exercise Expenses

- (A) Every Board Lot entitles the Warrantheader, upon compliance with Condition 4, to payment of the Cash Settlement Amount (as defined in Condition 4(D)), if any, minus the determined Exercise Expenses (as defined in Condition 2(B)). If the Cash Settlement Amount is equal to or less than the determined Exercise Expenses, no amount is payable by the Issuer.
- (B) The Warrantheader will be required to pay all charges which are incurred in respect of the exercise of the Warrants (the “**Exercise Expenses**”). To effect such payments, an amount equivalent to the Exercise Expenses will be deducted by the Issuer from the Cash Settlement Amount in accordance with Condition 4(B).

3 Automatic Exercise

- (A) Any Warrant in respect of which the Cash Settlement Amount would be payable by the Issuer if exercised on the Expiry Date shall be deemed to be automatically exercised on the Expiry Date (the “**Automatic Exercise**”).
- (B) Any Warrant which has not been automatically exercised in accordance with Condition 3(A) shall expire immediately without value thereafter and all rights of the Warrantheader and obligations of the Issuer with respect to such Warrant shall cease.
- (C) In these terms and conditions, “**Business Day**” means a day (excluding Saturdays) on which the Stock Exchange is scheduled to open for dealings in Hong Kong and banks are open for business in Hong Kong.

4 Exercise of Warrants

- (A) Warrants may only be exercised in Board Lots or integral multiples thereof.
- (B) An irrevocable authorisation is deemed to be given to the Issuer to deduct any determined Exercise Expenses from the Cash Settlement Amount and an undertaking to pay any Exercise Expenses not deducted from the Cash Settlement Amount. Any Exercise Expenses which have not been determined by the Issuer on the Expiry Date shall be notified as soon as practicable after determination thereof by the Issuer to the Warrantheader and shall be paid by the Warrantheader forthwith in immediately available funds no later than 3 Business Days after the Warrantheader receives notice of any unpaid Exercise Expenses.
- (C) Following the Expiry Date the Global Certificate will be cancelled.
- (D) Subject to the Automatic Exercise in accordance with Condition 3(A), the Issuer will as soon as practicable and not later than the Settlement Date in accordance with these terms and conditions procure payment of the aggregate Cash Settlement Amount minus the determined Exercise Expenses for all Warrants deemed exercised, electronically through CCASS by crediting the relevant bank account of the Warrantheader as appearing in the register kept by or on behalf of the Issuer.

Subject to adjustment as provided in Condition 6, “**Cash Settlement Amount**” per Board Lot means an amount calculated by the Issuer in accordance with the following formula (and if applicable, either (i) converted into the Settlement Currency at the Exchange Rate or, as the case may be, (ii) converted into the Interim Currency at the First Exchange Rate and then (if applicable) converted into the Settlement Currency at the Second Exchange Rate):

In respect of Index Call Warrants:

$$\text{“Cash Settlement Amount” per Board Lot} = \frac{(\text{Closing Level} - \text{Strike Level}) \times \text{one Board Lot} \times \text{Index Currency Amount}}{\text{Divisor}}$$

In respect of Index Put Warrants:

$$\text{“Cash Settlement Amount” per Board Lot} = \frac{(\text{Strike Level} - \text{Closing Level}) \times \text{one Board Lot} \times \text{Index Currency Amount}}{\text{Divisor}}$$

“CCASS Settlement Day” has the meaning ascribed to the term “Settlement Day” in the General Rules of CCASS and the CCASS Operational Procedures in effect from time to time, subject to such modification and amendment prescribed by Hong Kong Securities Clearing Company Limited from time to time.

“Market Disruption Event” means:

- (a) the occurrence or existence, on the Valuation Date during the one-half hour period that ends at the close of trading on the Index Exchange, of any of:
 - (i) the suspension of or material limitation on the trading of a material number of constituent securities that comprise the Index;
 - (ii) the suspension of or material limitation on the trading of options or futures contracts relating to the Index on any exchange on which such contracts are traded; or
 - (iii) the imposition of any exchange controls in respect of any currencies involved in determining the Cash Settlement Amount.

For the purposes of this paragraph (a), (X) the limitation of the number of hours or days of trading will not constitute a Market Disruption Event if it results from an announced change in the regular business hours of any relevant exchange, and (Y) a limitation on trading imposed by reason of the movements in price exceeding the levels permitted by any relevant exchange will constitute a Market Disruption Event;

- (b) (where the Index Exchange is the Stock Exchange) the issuance of the tropical cyclone warning signal number 8 or above or the issuance of a “BLACK” rainstorm signal on any day which either (i) results in the Stock Exchange being closed for trading for an entire day; or (ii) results in the Stock Exchange being closed prior to its regular time for close of trading for the relevant day (for the avoidance of doubt, in the case when the Stock Exchange is scheduled to open for the morning trading session only, closed prior to its regular time for close of trading for the morning session), PROVIDED THAT there shall be no Market Disruption Event solely by reason of the Stock Exchange opening for trading later than its regular time for opening of trading on any day as a result of the tropical cyclone warning signal number 8 or above or the “BLACK” rainstorm signal having been issued;
- (c) a limitation or closure of the Index Exchange due to any other unforeseen circumstances; or

- (d) any circumstances beyond the control of the Issuer in which the Closing Level or, if applicable, the Exchange Rate, the First Exchange Rate or the Second Exchange Rate (as the case may be) cannot be determined by the Issuer in the manner set out in these terms and conditions or in such other manner as the Issuer considers appropriate at such time after taking into account all the relevant circumstances;

“**Settlement Currency**” means the currency specified in the relevant Supplemental Listing Document.

“**Settlement Date**” means the third CCASS Settlement Day after the later of: (i) the Expiry Date; and (ii) the day on which the Closing Level is determined in accordance with these terms and conditions.

“**Valuation Date**” means the date specified as such in the relevant Supplemental Listing Document, provided that if the Issuer determines, in its sole and absolute discretion, that on the Valuation Date a Market Disruption Event has occurred, then the Issuer will determine the Closing Level on the basis of its good faith estimate of the Closing Level that would have prevailed on that day but for the occurrence of the Market Disruption Event provided that the Issuer may, if applicable, but shall not be obliged to, determine such Closing Level by having regard to the manner in which futures contracts relating to the Index are calculated.

Any payment made pursuant to this Condition 4(D) shall be delivered at the risk and expense of the Warrantholder to the Warrantholder, or such bank, broker or agent in Hong Kong (if any) as is recorded on the register.

- (E) If as a result of an event beyond the control of the Issuer, it is not possible for the Issuer to procure payment electronically through CCASS by crediting the relevant bank account of the Warrantholder on the original Settlement Date (“**Settlement Disruption Event**”), the Issuer shall use its reasonable endeavours to procure payment electronically through CCASS by crediting the relevant bank account of the Warrantholder as soon as reasonably practicable after the original Settlement Date. The Issuer will not be liable to the Warrantholder for any interest in respect of the amount due or any loss or damage that such Warrantholder may suffer as a result of the existence of a Settlement Disruption Event, nor shall the Issuer be liable under any circumstances for any acts or defaults of CCASS in relation to the performance of its duties in relation to the Warrants.
- (F) These terms and conditions shall not be construed so as to give rise to any relationship of agency or trust between the Issuer or its agent (including the Sponsor) or nominee and the Warrantholder and neither the Stock Exchange, the Issuer nor its agent (including the Sponsor) or nominee shall owe any duty of a fiduciary nature to the Warrantholder.

None of the Stock Exchange or the Issuer shall have any responsibility for any errors or omissions in the calculation and dissemination of any variables published by a third party and used in any calculation or determination made pursuant to these terms and conditions or in the calculation of the Cash Settlement Amount arising from such errors or omissions.

The Issuer’s obligations to pay the Cash Settlement Amount shall be discharged by payment in accordance with Condition 4(D) above.

5 Sponsor

- (A) The Sponsor will not assume any obligation or duty to or any relationship or agency or trust for the Warrantholders.

- (B) The Issuer reserves the right, subject to the appointment of a successor, at any time to vary or terminate the appointment of the Sponsor and to appoint another sponsor provided that it will at all times maintain a sponsor in Hong Kong for so long as the Warrants are listed on the Stock Exchange. Notice of any such termination or appointment of the Sponsor will be given to the holder in accordance with Condition 10.

6 Adjustments to the Index

- (A) If the Index is (i) not calculated and announced by the Index Compiler but is calculated and published by a successor to the Index Compiler (the “**Successor Index Compiler**”) acceptable to the Issuer or (ii) replaced by a successor index using, in the determination of the Issuer, the same or a substantially similar formula for and method of calculation as used in the calculation of the Index, then the Index will be deemed to be the index so calculated and announced by the Successor Index Compiler or that successor index, as the case may be.
- (B) If (i) on or prior to the Valuation Date the Index Compiler or (if applicable) the Successor Index Compiler makes a material change in the formula for or the method of calculating the Index or in any other way materially modifies the Index (other than a modification prescribed in that formula or method to maintain the Index in the event of changes in constituent stock, contracts or commodities and other routine events), or (ii) on the Valuation Date the Index Compiler or (if applicable) the Successor Index Compiler fails to calculate and publish the Index (other than as a result of a Market Disruption Event), then the Issuer shall determine the Closing Level using, in lieu of a published level for the Index, the level for the Index as at the Valuation Date as determined by the Issuer in accordance with the formula for and method of calculating the Index last in effect prior to the change or failure, but using only those securities/commodities that comprised the Index immediately prior to that change or failure (other than those securities that have since ceased to be listed on the relevant exchange).
- (C) Without prejudice to and notwithstanding any prior adjustment(s) made pursuant to the applicable terms and conditions, the Issuer may (but shall not be obliged to) make such other adjustments to the terms and conditions of the Warrants as appropriate where any event (including the events as contemplated in the applicable terms and conditions) occurs and irrespective of, in substitution for, or in addition to the provisions contemplated in applicable terms and conditions, provided that such adjustment is: (a) not materially prejudicial to the interests of the Warrantheolders generally (without considering the circumstances of any individual Warrantheolder or the tax or other consequences of such adjustment in any particular jurisdiction); or (b) determined by the Issuer in good faith to be appropriate and commercially reasonable.
- (D) All determinations made by the Issuer pursuant hereto will be conclusive and binding on the Warrantheolders. The Issuer will give, or procure that there is given, notice as soon as practicable of any determinations by publication in accordance with Condition 10.

7 Purchase by the Issuer

The Issuer and any of its affiliates may purchase Warrants at any time on or after the date of their issue and any Warrants which are so purchased may be surrendered for cancellation or offered from time to time in one or more transactions in the over-the-counter market or otherwise at prevailing market prices or in negotiated transactions, at the sole and absolute discretion of the Issuer or any such affiliate, as the case may be.

8 Global Certificate

A global certificate (the “**Global Certificate**”) representing the Warrants will be deposited within CCASS and registered in the name of HKSCC Nominees Limited (or its successors) or another nominee of Hong Kong Securities Clearing Company Limited. The Global Certificate will not be exchangeable for definitive certificates.

9 Meeting of Warrantholders; Modification

- (A) *Meetings of Warrantholders.* Notices for convening meetings to consider any matter affecting the Warrantholders’ interests will be given to the Warrantholders in accordance with the provisions of Condition 10.

Every question submitted to a meeting of the Warrantholders shall be decided by poll. A meeting may be convened by the Issuer or by the Warrantholders holding not less than 10 per cent. of the Warrants for the time being remaining unexercised. The quorum at any such meeting for passing an Extraordinary Resolution will be two or more persons (including any nominee appointed by the Warrantholders) holding or representing not less than 25 per cent. of the Warrants for the time being remaining unexercised, or at any adjourned meeting two or more persons (including any nominee appointed by the Warrantholders) being or representing Warrantholders whatever the number of Warrants so held or represented.

“**Extraordinary Resolution**” means a resolution passed at a duly convened meeting by not less than three-quarters of the votes cast by such Warrantholders as, being entitled to do so, vote in person or by proxy.

An Extraordinary Resolution passed at any meeting of the Warrantholders shall be binding on all the holders of the Warrants, whether or not they are present at the meeting.

Resolutions can be passed in writing without a meeting of the Warrantholders being held if passed unanimously.

Where the Warrantholder is a clearing house recognised by the laws of Hong Kong or its nominee(s), it may authorise such person or person(s) as it thinks fit to act as its representative(s) or proxy(ies) at any Warrantholders’ meeting provided that, if more than one person is so authorised, the authorisation or proxy form must specify the number of Warrants in respect of which each such person is so authorised. Each person so authorised will be entitled to exercise the same powers and right, including the right to vote on a show of hands, on behalf of the recognised clearing house or its nominee(s) as that clearing house or its nominee(s) as if he was an individual Warrantholder.

- (B) *Modification.* The Issuer may, without the consent of the Warrantholders, effect any modification of the terms and conditions of the Warrants or the Instrument which, in the opinion of the Issuer, is (i) not materially prejudicial to the interests of the Warrantholders generally (without considering the circumstances of any individual Warrantholder or the tax or other consequences of such modification in any particular jurisdiction); (ii) of a formal, minor or technical nature; (iii) made to correct a manifest error; or (iv) necessary in order to comply with mandatory provisions of the laws or regulations of Hong Kong. Any such modification shall be binding on the Warrantholders and shall be notified to them by the Issuer as soon as practicable thereafter in accordance with Condition 10.

10 Notices

All notices in English and Chinese to the Warrantholders will be validly given if published on the website of the Hong Kong Exchanges and Clearing Limited. In such circumstances, the Issuer shall not be required to dispatch copies of the notice to the Warrantholders.

11 Further Issues

The Issuer shall be at liberty from time to time, without the consent of the Warrantholders, to create and issue further warrants, upon such terms as to issue price, commencement of the exercise period and otherwise as the Issuer may determine so as to form a single series with the Warrants.

12 Illegality or Impracticability

The Issuer is entitled to terminate the Warrants if it determines in good faith and in a commercially reasonable manner that, for reasons beyond its control, it has become or it will become illegal or impracticable:

- (a) for it to perform its obligations under the Warrants, in whole or in part as a result of:
 - (i) the adoption of, or any change in, any relevant law or regulation (including any tax law); or
 - (ii) the promulgation of, or any change in, the interpretation by any court, tribunal, governmental, administrative, legislative, regulatory or judicial authority or power with competent jurisdiction of any relevant law or regulation (including any tax law),(each of (i) and (ii), a “**Change in Law Event**”); or
- (b) for it or any of its affiliates to maintain the Issuer’s hedging arrangements with respect to the Warrants due to a Change in Law Event.

Upon the occurrence of a Change in Law Event, the Issuer will, if and to the extent permitted by the applicable law or regulation, pay to each Warrantholder a cash amount that the Issuer determines in good faith and in a commercially reasonable manner to be the fair market value in respect of each Warrant held by such Warrantholder immediately prior to such termination (ignoring such illegality or impracticability) less the cost to the Issuer of unwinding any related hedging arrangement as determined by the Issuer in its sole and absolute discretion. Payment will be made in such manner as shall be notified to the Warrantholders in accordance with Condition 10.

13 Good Faith and Commercially Reasonable Manner

Any exercise of discretion by the Issuer under these terms and conditions will be made in good faith and in a commercially reasonable manner.

14 Governing Law

The Warrants and the Instrument will be governed by and construed in accordance with the laws of the Hong Kong Special Administrative Region of the People’s Republic of China (“**Hong Kong**”). The Issuer and the Warrantholder (by its acquisition of the Warrants) shall be deemed to have submitted for all purposes in connection with the Warrants and the Instrument to the non-exclusive jurisdiction of the courts of Hong Kong.

15 Language

In the event of any inconsistency between the English version and Chinese translation of these terms and conditions, the English version shall govern and prevail.

Sponsor

Standard Chartered Bank (Hong Kong) Limited
32/F, 4-4A Des Voeux Road Central
Hong Kong

PART C – TERMS AND CONDITIONS OF CASH-SETTLED WARRANTS RELATING TO THE UNITS OF A FUND OR TRUST

These master terms and conditions will, together with the supplemental provisions contained in the relevant supplemental listing document and subject to completion and amendment, be endorsed on the back of the relevant global certificate. The applicable supplemental listing document in relation to the issue of any series of Warrants may specify other terms and conditions which shall, to the extent so specified or to the extent inconsistent with these master terms and conditions, replace or modify these master terms and conditions for the purpose of such series of Warrants. Capitalised terms used in these master terms and conditions and not otherwise defined therein shall have the meaning given to them in the relevant supplemental listing document.

1 Form; Status; Transfer and Title

- (A) The Warrants (which expression shall, unless the context otherwise requires, include any further warrants issued pursuant to Condition 13) relating to the Units of the Fund or Trust are issued in registered form subject to and with the benefit of the instrument dated 25 June 2010 (the “**Instrument**”) made by Standard Chartered Bank (the “**Issuer**”).

A copy of the Instrument is available for inspection at the offices of Standard Chartered Bank (Hong Kong) Limited (the “**Sponsor**”) at 15th Floor, Two International Finance Centre, 8 Finance Street, Central, Hong Kong or such other place as notified pursuant to Condition 10 from time to time. The Warrantholders (as hereinafter defined) are entitled to the benefit of, are bound by and are deemed to have notice of, all the provisions of the Instrument.

- (B) The settlement obligation of the Issuer in respect of the Warrants represent general unsecured contractual obligations of the Issuer and of no other person which rank, and will rank, equally among themselves and pari passu with all other present and future unsecured and unsubordinated contractual obligations of the Issuer, except for obligations accorded preference by mandatory provisions of applicable law.

Warrants represent general contractual obligations of the Issuer, and are not, nor is it the intention (expressed, implicit or otherwise) of the Issuer to create by the issue of Warrants, deposit liabilities of the Issuer or a debt obligation of any kind.

- (C) Transfers of Warrants may be effected only in Board Lots or integral multiples thereof in the Central Clearing and Settlement System (“**CCASS**”) in accordance with the General Rules of CCASS and the CCASS Operational Procedures in effect from time to time.
- (D) Each person who is for the time being shown in the register kept by or on behalf of the Issuer outside of Hong Kong as the holder shall be treated by the Issuer as the absolute owner and holder of the Warrants. The expression “**Warrantholder**” shall be construed accordingly.
- (E) Trading in Warrants on The Stock Exchange of Hong Kong Limited (the “**Stock Exchange**”) shall be suspended prior to the Expiry Date in accordance with the requirements of the Stock Exchange.
- (F) The term “**Warrants**” refers to the Warrants set out in the relevant Supplemental Listing Document.

2 Warrant Rights and Exercise Expenses

- (A) Every Board Lot entitles the Warrantholder, upon compliance with Condition 4, to payment of the Cash Settlement Amount (as defined in Condition 4(D)), if any, minus the determined Exercise Expenses (as defined in Condition 2(B)). If the Cash Settlement Amount is equal to or less than the determined Exercise Expenses, no amount is payable by the Issuer.
- (B) The Warrantholder will be required to pay all charges which are incurred in respect of the exercise of the Warrants (the “**Exercise Expenses**”). To effect such payment, an amount equivalent to the Exercise Expenses will be deducted by the Issuer from the Cash Settlement Amount in accordance with Condition 4(B).

3 Automatic Exercise

- (A) Any Warrant in respect of which the Cash Settlement Amount would be payable by the Issuer if exercised on the Expiry Date shall be deemed to be automatically exercised on the Expiry Date (the “**Automatic Exercise**”).
- (B) Any Warrant which has not been automatically exercised in accordance with Condition 3(A) shall expire immediately without value thereafter and all rights of the Warrantholder and obligations of the Issuer with respect to such Warrant shall cease.
- (C) In these terms and conditions, “**Business Day**” means a day (excluding Saturdays) on which the Stock Exchange is scheduled to open for dealings in Hong Kong and banks are open for business in Hong Kong.

4 Exercise of Warrants

- (A) Warrants may only be exercised in Board Lots or integral multiples thereof.
- (B) An irrevocable authorisation is deemed to be given to the Issuer to deduct any determined Exercise Expenses from the Cash Settlement Amount and an undertaking to pay any Exercise Expenses not deducted from the Cash Settlement Amount. Any Exercise Expenses which have not been determined by the Issuer on the Expiry Date shall be notified as soon as practicable after determination thereof by the Issuer to the Warrantholder and shall be paid by the Warrantholder forthwith in immediately available funds no later than 3 Business Days after the Warrantholder receives notice of any unpaid Exercise Expenses.
- (C) Following the Expiry Date the Global Certificate will be cancelled.
- (D) Subject to the Automatic Exercise in accordance with Condition 3(A), the Issuer will as soon as practicable and not later than the Settlement Date in accordance with these terms and conditions procure payment of the aggregate Cash Settlement Amount minus the determined Exercise Expenses for all Warrants deemed exercised, electronically through CCASS by crediting the relevant bank account of the Warrantholder as appearing in the register kept by or on behalf of the Issuer.

Subject to adjustment as provided in Condition 6, “**Cash Settlement Amount**” per Board Lot means an amount in the Settlement Currency calculated by the Issuer in accordance with the following formula:

In the case of a series of Call Warrants:

$$\text{“Cash Settlement Amount” per Board Lot} = \frac{\text{Entitlement} \times (\text{Average Price} - \text{Exercise Price}) \times \text{one Board Lot}}{\text{Number of Warrant(s) per Entitlement}}$$

In the case of a series of Put Warrants:

$$\text{“Cash Settlement Amount” per Board Lot} = \frac{\text{Entitlement} \times (\text{Exercise Price} - \text{Average Price}) \times \text{one Board Lot}}{\text{Number of Warrant(s) per Entitlement}}$$

“**Average Price**” shall be the arithmetic mean of the closing prices of one Unit, as derived from the daily quotation sheet of the Stock Exchange, subject to any adjustments to such closing prices as may be necessary to reflect any capitalisation, rights issue, distribution or the like in respect of each Valuation Date.

“**CCASS Settlement Day**” has the meaning ascribed to the term “Settlement Day” in the General Rules of CCASS and the CCASS Operational Procedures in effect from time to time, subject to such modification and amendment prescribed by Hong Kong Securities Clearing Company Limited from time to time.

“**Entitlement**” means the number of Units to which the Warrants relate, as specified in the relevant Supplemental Listing Document.

“**Market Disruption Event**” means:

- (1) the occurrence or existence on any Valuation Date during the one-half hour period that ends at the close of trading of any suspension of or limitation imposed on trading (by reason of movements in price exceeding limits permitted by the Stock Exchange or otherwise) on the Stock Exchange in (i) the Units or (ii) any options or futures contracts relating to the Units if, in any such case, such suspension or limitation is, in the determination of the Issuer, material;
- (2) the issuance of the tropical cyclone warning signal number 8 or above or the issuance of a “BLACK” rainstorm signal on any day which either (i) results in the Stock Exchange being closed for trading for the entire day; or (ii) results in the Stock Exchange being closed prior to its regular time for close of trading for the relevant day (for the avoidance of doubt, in the case when the Stock Exchange is scheduled to open for the morning trading session only, closed prior to its regular time for close of trading for the morning session), PROVIDED THAT there shall be no Market Disruption Event solely by reason of the Stock Exchange opening for trading later than its regular time for opening of trading on any day as a result of the tropical cyclone warning signal number 8 or above or the “BLACK” rainstorm signal having been issued; or
- (3) a limitation or closure of the Stock Exchange due to any unforeseen circumstances.

“**Settlement Currency**” means the currency specified in the relevant Supplemental Listing Document.

“**Settlement Date**” means the third CCASS Settlement Day after the later of (i) the Expiry Date and (ii) the day on which the Average Price is determined in accordance with these terms and conditions.

“**Valuation Date**” means each of the five Business Days immediately preceding the Expiry Date.

If the Issuer determines, in its sole and absolute discretion, that a Market Disruption Event has occurred on any Valuation Date, then that Valuation Date shall be postponed until the first succeeding Business Day on which there is no Market Disruption Event irrespective of whether that postponed Valuation Date would fall on a Business Day that already is or is deemed to be a Valuation Date. For the avoidance of doubt, in the event that a Market Disruption Event has occurred and a Valuation Date is postponed as aforesaid, the closing price of the Units on the first succeeding Business Day will be used more than once in determining the Average Price, so that in no event shall there be less than five closing prices used to determine the Average Price.

If the postponement of a Valuation Date as aforesaid would result in the Valuation Date falling on or after the Expiry Date, then:

- (i) the Business Day immediately preceding the Expiry Date (the “**Last Valuation Date**”) shall be deemed to be the Valuation Date notwithstanding the Market Disruption Event; and
- (ii) the Issuer shall determine the closing price of the Units on the basis of its good faith estimate of the price that would have prevailed on the Last Valuation Date but for the Market Disruption Event.

Any payment made pursuant to this Condition 4(D) shall be delivered at the risk and expense of the Warrantholder to the Warrantholder, or such bank, broker or agent in Hong Kong (if any) as is recorded on the register.

- (E) If as a result of an event beyond the control of the Issuer, it is not possible for the Issuer to procure payment electronically through CCASS by crediting the relevant bank account of the Warrantholder on the original Settlement Date (“**Settlement Disruption Event**”), the Issuer shall use its reasonable endeavours to procure payment electronically through CCASS by crediting the relevant bank account of the Warrantholder as soon as reasonably practicable after the original Settlement Date. The Issuer will not be liable to the Warrantholder for any interest in respect of the amount due or any loss or damage that such Warrantholder may suffer as a result of the existence of a Settlement Disruption Event, nor shall the Issuer be liable under any circumstances for any acts or defaults of CCASS in relation to the performance of its duties in relation to the Warrants.
- (F) These terms and conditions shall not be construed so as to give rise to any relationship of agency or trust between the Issuer or its agent (including the Sponsor) or nominee and the Warrantholder and neither the Stock Exchange, the Issuer nor its agent (including the Sponsor) or nominee shall owe any duty of a fiduciary nature to the Warrantholder.

None of the Stock Exchange or the Issuer shall have any responsibility for any errors or omissions in the calculation and dissemination of any variables published by a third party and used in any calculation or determination made pursuant to these terms and conditions or in the calculation of the Cash Settlement Amount arising from such errors or omissions.

The Issuer’s obligations to pay the Cash Settlement Amount shall be discharged by payment in accordance with Condition 4(D) above.

5 Sponsor

- (A) The Sponsor will not assume any obligation or duty to or any relationship or agency or trust for the Warrantholders.
- (B) The Issuer reserves the right, subject to the appointment of a successor, at any time to vary or terminate the appointment of the Sponsor and to appoint another sponsor provided that it will at all times maintain a sponsor in Hong Kong for so long as the Warrants are listed on the Stock Exchange. Notice of any such termination or appointment of the Sponsor will be given to the holder in accordance with Condition 10.

6 Adjustments

Adjustments may be made by the Issuer to the terms of the Warrants (including, but not limited to, the Exercise Price and the Entitlement) on the basis of the following provisions:

- (A) (i) If and whenever the Fund or Trust shall, by way of Rights (as defined below), offer new Units for subscription at a fixed subscription price to the holders of existing Units pro rata to existing holdings (a “**Rights Offer**”), the Exercise Price and the Entitlement shall be adjusted on the Business Day on which the trading in the Units of the Fund or Trust becomes ex-entitlement in accordance with the following formulae:

The Entitlement will be adjusted to:

$$\text{Adjusted Entitlement} = \text{Adjustment Factor} \times E$$

The Exercise Price will be adjusted to:

$$\text{Adjusted Exercise Price} = \frac{1}{\text{Adjustment Factor}} \times X$$

Where:

$$\text{Adjustment Factor} = \frac{1 + M}{1 + (R/S) \times M}$$

E: Existing Entitlement immediately prior to the Rights Offer

X: Existing Exercise Price immediately prior to the Rights Offer

S: Cum-Rights Unit price, being the closing price of an existing Unit, as derived from the daily quotation sheet of the Stock Exchange on the last Business Day on which the Units are traded on a cum-rights basis

R: Subscription price per new Unit specified in the Rights Offer plus an amount equal to any distributions or other benefits foregone to exercise the Right

M: Number of new Unit(s) per existing Unit (whether a whole or a fraction) each holder of an existing Unit is entitled to subscribe or have

For the purposes of these terms and conditions, “**Rights**” means the right(s) attached to each existing Unit or needed to acquire one new Unit (as the case may be) which are given to a holder of existing Units to subscribe at a fixed subscription price for new Units pursuant to the Rights Offer (whether by the exercise of one Right, a part of a Right or an aggregate number of Rights).

- (ii) The Adjusted Exercise Price (which shall be rounded to the nearest 0.001) shall take effect on the same day that the Entitlement is adjusted.
- (B) (i) If and whenever the Fund or Trust shall make an issue of Units credited as fully paid to holders of Units generally by way of capitalisation of profits or reserves (other than pursuant to a scrip distribution or similar scheme for the time being operated by the Fund or Trust or otherwise in lieu of a cash distribution) (and without any payment or other consideration being made or given by such holders) (a “**Bonus Issue**”), the Entitlement and the Exercise Price will be adjusted, subject to Condition 6(B)(iii), on the Business Day on which the trading in the Units of the Fund or Trust becomes ex-entitlement in accordance with the following formulae:

The Entitlement will be adjusted to:

$$\text{Adjusted Entitlement} = \text{Adjustment Factor} \times E$$

The Exercise Price will be adjusted to:

$$\text{Adjusted Exercise Price} = \frac{1}{\text{Adjustment Factor}} \times X$$

Where:

$$\text{Adjustment Factor} = 1 + M$$

E: Existing Entitlement immediately prior to the Bonus Issue

X: Existing Exercise Price immediately prior to the Bonus Issue

M: Number of additional Units (whether a whole or a fraction) received by a holder of existing Units for each Unit held prior to the Bonus Issue

- (ii) The Adjusted Exercise Price (which shall be rounded to the nearest 0.001) shall take effect on the same day that the Entitlement is adjusted.
 - (iii) For the purposes of Conditions 6(A) and 6(B), the Issuer may determine that no adjustment will be made if the adjustment to the Entitlement is 1 per cent. or less of the Entitlement immediately prior to the adjustment, all as determined by the Issuer.
- (C) If and whenever the Fund or Trust shall subdivide its Units or any class of its outstanding Units into a greater number of units or consolidate the Units or any class of its outstanding Units into a smaller number of units, the Entitlement shall be increased and the Exercise Price shall be decreased (in the case of a subdivision) or the Entitlement shall be decreased and the Exercise Price shall be increased (in the case of a consolidation) accordingly, in each case on the day on which the relevant subdivision or consolidation shall have taken effect. The adjusted Exercise Price shall be rounded to the nearest 0.001.
- (D) If it is announced that the Fund or Trust is to or may merge or consolidate with or into any other trust or corporation (including becoming, by agreement or otherwise, a subsidiary of or controlled by any person or corporation) (except where the Fund or Trust is the surviving entity in a merger or consolidation) or that it is to or may sell or transfer all or substantially all of its assets, the rights attaching to the Warrants may in the sole and absolute discretion of the Issuer be amended no later than the Business Day preceding the consummation of such merger, consolidation, sale or transfer (each a “**Restructuring Event**”) (as determined by the Issuer in its sole and absolute discretion).

The rights attaching to the Warrants after the adjustment shall, after such Restructuring Event, relate to the number of units of the trust(s) or fund(s) as the case may be resulting from or surviving such Restructuring Event or other securities (the “**Substituted Securities**”) and/or cash offered in substitution for the affected Units, as the case may be, to which the holder of such number of Units to which the Warrants related immediately before such Restructuring Event would have been entitled upon such Restructuring Event. Thereafter the provisions hereof shall apply to such Substituted Securities, provided that any Substituted Securities may, in the sole and absolute discretion of the Issuer, be deemed to be replaced by an amount in the relevant currency equal to the market value or, if no market value is available, fair value, of such Substituted Securities in each case as determined by the Issuer as soon as practicable after such Restructuring Event is effected.

For the avoidance of doubt, any remaining Units shall not be affected by this paragraph (D) and, where cash is offered in substitution for Units or is deemed to replace Substituted Securities as described above, references in these terms and conditions to the Units shall include any such cash.

- (E) Generally, no adjustment will be made for an ordinary cash dividend (whether or not it is offered with a scrip alternative). For any other forms of cash distribution (each a “**Cash Distribution**”) announced by the Fund or Trust, such as a cash bonus, special dividend or extraordinary dividend, no adjustment will be made unless the value of the Cash Distribution accounts for 2 per cent. or more of the Unit’s closing price on the day of announcement by the Fund or Trust.

If and whenever the Fund or Trust shall make a Cash Distribution credited as fully paid to the holders of Units generally, the Exercise Price and the Entitlement shall be adjusted to take effect on the Business Day on which trading in the Units becomes ex-entitlement (each a “**Dividend Adjustment Date**”) in accordance with the following formulae:

The Entitlement will be adjusted to:

$$\text{Adjusted Entitlement} = \text{Adjustment Factor} \times E$$

The Exercise Price will be adjusted to:

$$\begin{array}{l} \text{Adjusted Exercise Price} \\ \text{(which shall be rounded} \\ \text{to the nearest 0.001)} \end{array} = \frac{1}{\text{Adjustment Factor}} \times X$$

Where:

$$\text{Adjustment Factor} = \frac{S - OD}{S - OD - CD}$$

E: Existing Entitlement immediately prior to the relevant Cash Distribution

X: Existing Exercise Price immediately prior to the relevant Cash Distribution

S: The closing price of an Unit, as derived from the daily quotation sheet of the Stock Exchange on the Business Day immediately prior to the Dividend Adjustment Date

OD: Amount of ordinary cash dividend per Unit (applicable only if the date on which trading in the Units becomes ex-entitlement in respect of the ordinary cash dividend is the same as the Dividend Adjustment Date)

CD: Amount of the relevant Cash Distribution per Unit

- (F) Without prejudice to and notwithstanding any prior adjustment(s) made pursuant to the applicable terms and conditions, the Issuer may (but shall not be obliged to) make such other adjustments to the terms and conditions of the Warrants as appropriate where any event (including the events as contemplated in the applicable terms and conditions) occurs and irrespective of, in substitution for, or in addition to the provisions contemplated in applicable terms and conditions, provided that such adjustment is: (a) not materially prejudicial to the interests of the Warrantheolders generally (without considering the circumstances of any individual Warrantheolder or the tax or other consequences of such adjustment in any particular jurisdiction); or (b) determined by the Issuer in good faith to be appropriate and commercially reasonable.
- (G) The Issuer shall determine any adjustment or amendment and its determination shall be conclusive and binding on the Warrantheolders save in the case of manifest error. Notice of any adjustments or amendments shall be given to the Warrantheolders in accordance with Condition 10 as soon as practicable after the determination thereof.

7 Purchase by the Issuer

The Issuer and any of its affiliates may purchase Warrants at any time on or after the date of their issue and any Warrants which are so purchased may be surrendered for cancellation or offered from time to time in one or more transactions in the over-the-counter market or otherwise at prevailing market prices or in negotiated transactions, at the sole and absolute discretion of the Issuer or any such affiliate, as the case may be.

8 Global Certificate

A global certificate (the “**Global Certificate**”) representing the Warrants will be deposited within CCASS and registered in the name of HKSCC Nominees Limited (or its successors) or another nominee of Hong Kong Securities Clearing Company Limited. The Global Certificate will not be exchangeable for definitive certificates.

9 Meeting of Warrantheolders; Modification

- (A) *Meetings of Warrantheolders.* Notices for convening meetings to consider any matter affecting the Warrantheolders’ interests will be given to the Warrantheolders in accordance with the provisions of Condition 10.

Every question submitted to a meeting of the Warrantheolders shall be decided by poll. A meeting may be convened by the Issuer or by the Warrantheolders holding not less than 10 per cent. of the Warrants for the time being remaining unexercised. The quorum at any such meeting for passing an Extraordinary Resolution will be two or more persons (including any nominee appointed by the Warrantheolders) holding or representing not less than 25 per cent. of the Warrants for the time being remaining unexercised, or at any adjourned meeting two or more persons (including any nominee appointed by the Warrantheolders) being or representing Warrantheolders whatever the number of Warrants so held or represented.

“**Extraordinary Resolution**” means a resolution passed at a duly convened meeting by not less than three-quarters of the votes cast by such Warrantheolders as, being entitled to do so, vote in person or by proxy.

An Extraordinary Resolution passed at any meeting of the Warrantheolders shall be binding on all the holders of the Warrants, whether or not they are present at the meeting.

Resolutions can be passed in writing without a meeting of the Warrantholders being held if passed unanimously.

Where the Warrantholder is a clearing house recognised by the laws of Hong Kong or its nominee(s), it may authorise such person or person(s) as it thinks fit to act as its representative(s) or proxy(ies) at any Warrantholders' meeting provided that, if more than one person is so authorised, the authorisation or proxy form must specify the number of Warrants in respect of which each such person is so authorised. Each person so authorised will be entitled to exercise the same powers and right, including the right to vote on a show of hands, on behalf of the recognised clearing house or its nominee(s) as that clearing house or its nominee(s) as if he was an individual Warrantholder.

- (B) *Modification.* The Issuer may, without the consent of the Warrantholders, effect any modification of the terms and conditions of the Warrants or the Instrument which, in the opinion of the Issuer, is (i) not materially prejudicial to the interests of the Warrantholders generally (without considering the circumstances of any individual Warrantholder or the tax or other consequences of such modification in any particular jurisdiction); (ii) of a formal, minor or technical nature; (iii) made to correct a manifest error; or (iv) necessary in order to comply with mandatory provisions of the laws or regulations of Hong Kong. Any such modification shall be binding on the Warrantholders and shall be notified to them by the Issuer as soon as practicable thereafter in accordance with Condition 10.

10 Notices

All notices in English and Chinese to the Warrantholders will be validly given if published on the website of the Hong Kong Exchanges and Clearing Limited. In such circumstances, the Issuer shall not be required to dispatch copies of the notice to the Warrantholders.

11 Termination or Liquidation of Fund or Trust

In the event of a Termination or the liquidation or dissolution of the trustee of the Fund or Trust (including any successor trustee appointed from time to time) ("**Trustee**") (in its capacity as trustee of the Fund or Trust) or the appointment of a liquidator, receiver or administrator or analogous person under applicable law in respect of the whole or substantially the whole of the Trustee's undertaking, property or assets all unexercised Warrants will lapse and shall cease to be valid for any purpose. In the case of a Termination the unexercised Warrants will lapse and shall cease to be valid on the effective date of the Termination, in the case of a voluntary liquidation, on the effective date of the resolution and, in the case of an involuntary liquidation or dissolution, on the date of the relevant court order or, in the case of the appointment of a liquidator or receiver or administrator or analogous person under applicable law in respect of the whole or substantially the whole of the Trustee's undertaking, property or assets, on the date when such appointment is effective but subject (in any such case) to any contrary mandatory requirement of law.

For the purpose of this Condition 11, "**Termination**" means (i) the Fund or Trust is terminated, or the Trustee or the manager of the Fund or Trust (including any successor manager appointed from time to time) ("**Manager**") is required to terminate the Fund or Trust under the trust deed ("**Trust Deed**") constituting the Fund or Trust or applicable law, or the termination of the Fund or Trust commences; (ii) the Fund or Trust is held or is conceded by the Trustee or the Manager not to have been constituted or to have been imperfectly constituted; (iii) the Trustee ceases to be authorised under the Fund or Trust to hold the property of the Fund or Trust in its name and perform its obligations under the Trust Deed; or (iv) the Fund or Trust ceases to be authorised as an authorised collective investment scheme under the Securities and Futures Ordinance (Cap. 571 of the Laws of Hong Kong).

12 Delisting of Fund or Trust

- (A) If at any time the Units cease to be listed on the Stock Exchange, the Issuer shall give effect to these terms and conditions in such manner and make such adjustments to the rights attaching to the Warrants as it shall, in its sole and absolute discretion, consider appropriate to ensure, so far as it is reasonably able to do so, that the interests of the Warrantholders generally are not materially prejudiced as a consequence of such delisting (without considering the individual circumstances of the Warrantholder or the tax or other consequences that may result in any particular jurisdiction).
- (B) Without prejudice to the generality of Condition 12(A), where the Units are or, upon the delisting, become, listed on any other stock exchange, these terms and conditions may, in the sole and absolute discretion of the Issuer, be amended to the extent necessary to allow for the substitution of that other stock exchange in place of the Stock Exchange and the Issuer may, without the consent of the Warrantholders, make such adjustments to the entitlements of the Warrantholders on exercise (including, if appropriate, by converting foreign currency amounts at prevailing market rates into amounts in the relevant currency) as it shall consider appropriate in the circumstances.
- (C) Any adjustment, amendment or determination made by the Issuer pursuant to this Condition 12 shall be conclusive and binding on the Warrantholders save in the case of manifest error. Notice of any adjustments or amendments shall be given to the Warrantholders in accordance with Condition 10 as soon as practicable after they are determined.

13 Further Issues

The Issuer shall be at liberty from time to time, without the consent of the Warrantholders, to create and issue further warrants, upon such terms as to issue price, commencement of the exercise period and otherwise as the Issuer may determine so as to form a single series with the Warrants.

14 Illegality or Impracticability

The Issuer is entitled to terminate the Warrants if it determines in good faith and in a commercially reasonable manner that, for reasons beyond its control, it has become or it will become illegal or impracticable:

- (a) for it to perform its obligations under the Warrants, in whole or in part as a result of:
 - (i) the adoption of, or any change in, any relevant law or regulation (including any tax law); or
 - (ii) the promulgation of, or any change in, the interpretation by any court, tribunal, governmental, administrative, legislative, regulatory or judicial authority or power with competent jurisdiction of any relevant law or regulation (including any tax law),(each of (i) and (ii), a “**Change in Law Event**”); or
- (b) for it or any of its affiliates to maintain the Issuer’s hedging arrangements with respect to the Warrants due to a Change in Law Event.

Upon the occurrence of a Change in Law Event, the Issuer will, if and to the extent permitted by the applicable law or regulation, pay to each Warrantholder a cash amount that the Issuer determines in good faith and in a commercially reasonable manner to be the fair market value in

respect of each Warrant held by such Warrantholder immediately prior to such termination (ignoring such illegality or impracticability) less the cost to the Issuer of unwinding any related hedging arrangement as determined by the Issuer in its sole and absolute discretion. Payment will be made in such manner as shall be notified to the Warrantholders in accordance with Condition 10.

15 Good Faith and Commercially Reasonable Manner

Any exercise of discretion by the Issuer under these terms and conditions will be made in good faith and in a commercially reasonable manner.

16 Governing Law

The Warrants and the Instrument will be governed by and construed in accordance with the laws of the Hong Kong Special Administrative Region of the People's Republic of China ("**Hong Kong**"). The Issuer and the Warrantholder (by its acquisition of the Warrants) shall be deemed to have submitted for all purposes in connection with the Warrants and the Instrument to the non-exclusive jurisdiction of the courts of Hong Kong.

17 Language

In the event of any inconsistency between the English version and Chinese translation of these terms and conditions, the English version shall govern and prevail.

Sponsor
Standard Chartered Bank (Hong Kong) Limited
32/F, 4-4A Des Voeux Road Central
Hong Kong

ANNEX 2

PART A – TERMS AND CONDITIONS OF CASH-SETTLED CALLABLE BULL/BEAR CONTRACTS RELATING TO A SHARE

These master terms and conditions will, together with the supplemental provisions contained in the relevant supplemental listing document and subject to completion and amendment, be endorsed on the back of the relevant global certificate. The applicable supplemental listing document in relation to the issue of any series of CBBCs may specify other terms and conditions which shall, to the extent so specified or to the extent inconsistent with these master terms and conditions, replace or modify these master terms and conditions for the purpose of such series of CBBCs. Capitalised terms used in these master terms and conditions and not otherwise defined therein shall have the meaning given to them in the relevant supplemental listing document.

1 Form; Status; Transfer and Title

- (A) The callable bull/bear contracts or “**CBBCs**” (which expression shall, unless the context otherwise requires, include any further CBBCs issued pursuant to Condition 12) relating to the Shares of the Company are issued in registered form subject to and with the benefit of the instrument dated 25 June 2010 (the “**Instrument**”) made by Standard Chartered Bank (the “**Issuer**”).

A copy of the Instrument is available for inspection at the offices of Standard Chartered Bank (Hong Kong) Limited (the “**Sponsor**”) at 15th Floor, Two International Finance Centre, 8 Finance Street, Central, Hong Kong or such other place as notified pursuant to Condition 9 from time to time. The Holders (as hereinafter defined) are entitled to the benefit of, are bound by and are deemed to have notice of, all the provisions of the Instrument.

- (B) The settlement obligations of the Issuer in respect of the CBBCs represent general unsecured contractual obligations of the Issuer and of no other person which rank, and will rank, equally among themselves and *pari passu* with all other present and future unsecured and unsubordinated contractual obligations of the Issuer, except for obligations accorded preference by mandatory provisions of applicable law.

CBBCs represent general contractual obligations of the Issuer, and are not, nor is it the intention (expressed, implicit or otherwise) of the Issuer to create by the issue of CBBCs deposit liabilities of the Issuer or a debt obligation of any kind.

- (C) Transfers of CBBCs may be effected only in a Board Lot or integral multiples thereof in the Central Clearing and Settlement System (“**CCASS**”) in accordance with the General Rules of CCASS and the CCASS Operational Procedures in effect from time to time.
- (D) Each person who is for the time being shown in the register kept by or on behalf of the Issuer outside of Hong Kong as the holder shall be treated by the Issuer as the absolute owner and holder of the CBBCs (which shall be HKSCC Nominees Limited (or its successor) or another nominee of Hong Kong Securities Clearing Company Limited for so long as the CBBCs are accepted as eligible securities in CCASS). The expression “**Holder**” shall be construed accordingly.
- (E) Trading in CBBCs on The Stock Exchange of Hong Kong Limited (the “**Stock Exchange**”) shall be suspended after the occurrence of a Mandatory Call Event in accordance with the rules of the Stock Exchange. None of the Stock Exchange, the Issuer nor any of its affiliates shall have any responsibility towards the Holder for any losses

suffered in connection with the determination of a Mandatory Call Event, whether or not such losses are a result of the suspension of trading of the CBBCs, notwithstanding that such suspension may have occurred as a result of an error in the determination of the event.

2 CBBCs Rights and Exercise Expenses

- (A) Every Board Lot of the CBBCs entitles the Holder to payment of the Cash Settlement Amount (as defined in Condition 3(D)), if any, minus the determined Exercise Expenses (as defined in Condition 3(D)). If the Cash Settlement Amount is equal to or less than the determined Exercise Expenses, no amount is payable by the Issuer.
- (B) The Holder will be required to pay the Exercise Expenses in respect of a Mandatory Call Termination or Automatic Exercise of the CBBCs. To effect such payment, an amount equivalent to the Exercise Expenses will be deducted by the Issuer from the Cash Settlement Amount in accordance with Condition 3(D). Any Exercise Expenses which have not been determined by the Issuer after the end of the MCE Valuation Period or on the Valuation Date (as the case may be) shall be notified as soon as practicable after determination thereof by the Issuer to the Holder and shall be paid by the Holder forthwith in immediately available funds no later than 3 Business Days after the Holder receives notice of any unpaid Exercise Expenses.
- (C) An irrevocable authorisation is deemed to be given to the Issuer to deduct any determined Exercise Expenses from the Cash Settlement Amount.

3 Mandatory Call Termination and Automatic Exercise

- (A) Upon the occurrence of a Mandatory Call Event, the CBBCs will terminate automatically on the day on which the Mandatory Call Event occurs (“**Mandatory Call Termination**”) and the Issuer will give notice of the occurrence of the Mandatory Call Event to the Holders in accordance with Condition 9. Trading in the CBBCs will be suspended immediately upon the occurrence of a Mandatory Call Event and all Post MCE Trades will be cancelled and will not be recognised by the Stock Exchange or the Issuer.

Whereas:

“**Business Day**” means a day (excluding Saturdays) on which the Stock Exchange is scheduled to open for dealings in Hong Kong and banks are open for business in Hong Kong;

“**CCASS Settlement Day**” has the meaning ascribed to the term “Settlement Day” in the General Rules of CCASS and the CCASS Operational Procedures in effect from time to time, subject to such modification and amendment prescribed by Hong Kong Securities Clearing Company Limited from time to time;

“**Mandatory Call Event**” occurs when the Spot Price of the Shares at any time during a Trading Day in the Observation Period is (in the case of a series of bull CBBCs) at or below the Call Price or (in the case of a series of bear CBBCs) at or above the Call Price;

“**Observation Period**” means the period from and including the Observation Commencement Date to and including the Trading Day immediately preceding the Expiry Date;

“**Post MCE Trades**” has the meaning given to it in the relevant Supplemental Listing Document, subject to such modification and amendment prescribed by the Stock Exchange from time to time;

“**Spot Price**” means:

- (i) in respect of a continuous trading session of the Stock Exchange, the price per Share concluded by means of automatic order matching on the Stock Exchange as reported in the official real-time dissemination mechanism for the Stock Exchange during such continuous trading session in accordance with the Rules and Regulations of the Stock Exchange prescribed by the Stock Exchange from time to time (“**Trading Rules**”), excluding direct business (as defined in the Trading Rules); and
- (ii) in respect of a pre-opening session or a closing auction session (if any) of the Stock Exchange, as the case may be, the final Indicative Equilibrium Price (as defined in the Trading Rules) of the Share (if any) calculated at the end of the pre-order matching period of such pre-opening session or closing auction session (if any), as the case may be, in accordance with the Trading Rules, excluding direct business (as defined in the Trading Rules),

subject to such modification and amendment prescribed by the Stock Exchange from time to time; and

“**Trading Day**” means any day on which the Stock Exchange is scheduled to open for trading for its regular trading sessions.

- (B) Any CBBCs with respect to which a Mandatory Call Event has not occurred during the Observation Period shall be deemed to be automatically exercised on the Expiry Date (the “**Automatic Exercise**”).
- (C) Following the occurrence of the Mandatory Call Event or the Expiry Date, the Global Certificate will be cancelled.
- (D) Following a Mandatory Call Termination or the Automatic Exercise in accordance with Conditions 3(A) or 3(B), the Issuer will as soon as practicable and on a day no later than the Settlement Date in accordance with these terms and conditions procure payment of the aggregate Cash Settlement Amount minus the determined Exercise Expenses for all CBBCs terminated or deemed automatically exercised in favour of the Holder as appearing in the register kept by or on behalf of the Issuer.

Any payment of the Cash Settlement Amount made pursuant to this Condition 3(D) shall be delivered at the risk and expense of the Holder to the Holder as recorded on the register, or such bank, broker or agent in Hong Kong (if any) as directed by the Holder.

Whereas:

“**Cash Settlement Amount**” per Board Lot means, subject to adjustment as provided in Condition 5, an amount determined by the Issuer in accordance with the following formula:

(i) if no Mandatory Call Event has occurred:

(a) in the case of a series of bull CBBCs:

$$\text{“Cash Settlement Amount” per Board Lot} = \frac{\text{Entitlement} \times (\text{Closing Price} - \text{Strike Price}) \times \text{one Board Lot}}{\text{Number of CBBC(s) per Entitlement}}$$

(b) in the case of a series of bear CBBCs:

$$\text{“Cash Settlement Amount” per Board Lot} = \frac{\text{Entitlement} \times (\text{Strike Price} - \text{Closing Price}) \times \text{one Board Lot}}{\text{Number of CBBC(s) per Entitlement}}$$

(ii) following a Mandatory Call Event:

(a) in the case of a series of Category R CBBCs, the Residual Value; or

(b) in the case of a series of Category N CBBCs, zero.

Provided that if the relevant formula above produces an amount that is equal to or less than the determined Exercise Expenses, then no amount shall be payable. The aggregate Cash Settlement Amount payable to a Holder shall be expressed in the Settlement Currency;

“**Closing Price**” shall be the closing price of one Share (as derived from the daily quotation sheet of the Stock Exchange, subject to any adjustments to such closing price as may be necessary to reflect any capitalisation, rights issue, distribution or the like) on the Valuation Date;

“**Entitlement**” means such number of Shares to which the CBBC relates, as specified in the relevant Supplemental Listing Document;

“**Exercise Expenses**” means all taxes, duties and/or expenses, including all applicable depository, transaction or exercise charges, stamp duties, stamp duty reserve tax, issue, registration, securities transfer and/or other taxes or duties, arising in connection with (i) the Mandatory Call Termination (not applicable in the case of Category N CBBCs) or Automatic Exercise of such CBBC and/or (ii) any payment due following Mandatory Call Termination or Automatic Exercise in respect of such CBBC;

“**Market Disruption Event**” means:

(i) the occurrence or existence on any Trading Day during the one-half hour period that ends at the close of trading of any suspension of or limitation imposed on trading (by reason of movements in price exceeding limits permitted by the Stock Exchange or otherwise) on the Stock Exchange in (a) the Shares; or (b) any options or futures contracts relating to the Shares if, in any such case, such suspension or limitation is, in the determination of the Issuer, material;

- (ii) the issuance of the tropical cyclone warning signal number 8 or above or the issuance of a “BLACK” rainstorm signal on any day which either (i) results in the Stock Exchange being closed for trading for the entire day; or (ii) results in the Stock Exchange being closed prior to its regular time for close of trading for the relevant day (for the avoidance of doubt, in the case when the Stock Exchange is scheduled to open for the morning trading session only, closed prior to its regular time for close of trading for the morning session), PROVIDED THAT there shall be no Market Disruption Event solely by reason of the Stock Exchange opening for trading later than its regular time for opening of trading on any day as a result of the tropical cyclone warning signal number 8 or above or the “BLACK” rainstorm signal having been issued; or
- (iii) a limitation or closure of the Stock Exchange due to any unforeseen circumstances;

“**Maximum Trade Price**” means the highest Spot Price of the Shares during the MCE Valuation Period;

“**MCE Valuation Period**” means the period commencing from and including the moment upon which the Mandatory Call Event occurs (the trading session on the Stock Exchange during which the Mandatory Call Event occurs is the “**1st Session**”) and up to the end of the trading session on the Stock Exchange immediately following the 1st Session (“**2nd Session**”) unless, in the determination of the Issuer in its good faith, the 2nd Session for any reason (including, without limitation, a Market Disruption Event occurring and subsisting in the 2nd Session) does not contain any continuous period of 1 hour or more than 1 hour during which trading in the Shares is permitted on the Stock Exchange with no limitation imposed, the MCE Valuation Period shall be extended to the end of the subsequent trading session following the 2nd Session during which trading in the Shares is permitted on the Stock Exchange with no limitation imposed for a continuous period of at least 1 hour notwithstanding the existence or continuance of a Market Disruption Event in such postponed trading session, unless the Issuer determines in its good faith that each trading session on each of the four Trading Days immediately following the date on which the Mandatory Call Event occurs does not contain any continuous period of 1 hour or more than 1 hour during which trading in the Shares is permitted on the Stock Exchange with no limitation imposed. In that case:

- (i) the period commencing from the 1st Session up to, and including, the last trading session on the Stock Exchange of the fourth Trading Day immediately following the date on which the Mandatory Call Event occurs shall be deemed to be the MCE Valuation Period; and
- (ii) the Issuer shall determine the Maximum Trade Price or the Minimum Trade Price (as the case may be) having regard to the then prevailing market conditions, the last reported Spot Price and such other factors as the Issuer may determine to be relevant in its good faith.

For the avoidance of doubt, all Spot Prices available throughout the extended MCE Valuation Period shall be taken into account to determine the Maximum Trade Price or the Minimum Trade Price (as the case may be) for the calculation of the Residual Value.

For the purposes of this definition,

- (a) the pre-opening session, the morning session and, in the case of half day trading, the closing auction session (if applicable) of the same day; and
- (b) the afternoon session and the closing auction session (if applicable) of the same day,

shall each be considered as one trading session only;

“**Minimum Trade Price**” means the lowest Spot Price of the Shares during the MCE Valuation Period;

“**Residual Value**” per Board Lot means, subject to adjustment as provided in Condition 5:

(i) in the case of a series of bull CBBCs:

$$\text{“Residual Value” per Board Lot} = \frac{\text{Entitlement} \times (\text{Minimum Trade Price} - \text{Strike Price}) \times \text{one Board Lot}}{\text{Number of CBBC(s) per Entitlement}}$$

(ii) in the case of a series of bear CBBCs:

$$\text{“Residual Value” per Board Lot} = \frac{\text{Entitlement} \times (\text{Strike Price} - \text{Maximum Trade Price}) \times \text{one Board Lot}}{\text{Number of CBBC(s) per Entitlement}}$$

“**Settlement Currency**” means the currency specified in the relevant Supplemental Listing Document; and

“**Settlement Date**” means the third CCASS Settlement Day after (i) the end of the MCE Valuation Period or (ii) the later of: (a) the Expiry Date; and (b) the day on which the Closing Price is determined in accordance with these terms and conditions (as the case may be).

“**Valuation Date**” means the Trading Day immediately preceding the Expiry Date. If the Issuer determines, in its sole and absolute discretion, that a Market Disruption Event has occurred on the Valuation Date, then the Valuation Date shall be the first succeeding Trading Day on which the Issuer determines that there is no Market Disruption Event, unless the Issuer determines that there is a Market Disruption Event occurring on each of the four Trading Days immediately following the original date which (but for the Market Disruption Event) would have been the Valuation Date. In that case: (a) the fourth Trading Day immediately following the original date shall be deemed to be the Valuation Date (regardless of the Market Disruption Event); and (b) the Issuer shall determine the Closing Price having regard to the then prevailing market conditions, the last reported trading price of the Share on the Stock Exchange and such other factors as the Issuer determines to be relevant.

- (E) If as a result of an event beyond the control of the Issuer, it is not possible for the Issuer to procure payment electronically through CCASS by crediting the relevant bank account of the Holder on the original Settlement Date (“**Settlement Disruption Event**”), the Issuer shall use its reasonable endeavours to procure payment electronically through CCASS by crediting the relevant bank account of the Holder as soon as reasonably practicable after the original Settlement Date. The Issuer will not be liable to the Holder for any interest in respect of the amount due or any loss or damage that such Holder may suffer as a result of the existence of a Settlement Disruption Event, nor shall the Issuer be liable under any circumstances for any acts or defaults of CCASS in relation to the performance of its duties in relation to the CBBCs.
- (F) These terms and conditions shall not be construed so as to give rise to any relationship of agency or trust between the Stock Exchange, the Issuer or its agent (including the Sponsor) or nominee and the Holder and neither the Stock Exchange, the Issuer nor its agent (including the Sponsor) or nominee shall owe any duty of a fiduciary nature to the Holder.

None of the Stock Exchange or the Issuer shall have any responsibility for any errors or omissions in the calculation and determination of any variables published by it or a third party and used in any calculation or determination made pursuant to these terms and conditions (including the determination as to the occurrence of the Mandatory Call Event) or in the calculation of the Cash Settlement Amount arising from such errors or omissions.

The Issuer's obligations to pay the Cash Settlement Amount shall be discharged by payment in accordance with Condition 3(D) above.

4 Sponsor

- (A) The Sponsor will not assume any obligation or duty to or any relationship or agency or trust for the Holders.
- (B) The Issuer reserves the right, subject to the appointment of a successor, at any time to vary or terminate the appointment of the Sponsor and to appoint another sponsor provided that it will at all times maintain a sponsor in Hong Kong for so long as the CBBCs are listed on the Stock Exchange. Notice of any such termination or appointment of the Sponsor will be given to the Holders in accordance with Condition 9.

5 Adjustments

Adjustments may be made by the Issuer to the terms of the CBBCs (including, but not limited to (i) the Strike Price, (ii) the Call Price and/or (iii) the Entitlement) on the basis of the following provisions:

- (A) (i) If and whenever the Company shall, by way of Rights (as defined below), offer new Shares for subscription at a fixed subscription price to the holders of existing Shares pro rata to existing holdings (a "**Rights Offer**"), the Strike Price, the Call Price and the Entitlement shall be adjusted on the Business Day on which the trading in the Shares of the Company becomes ex-entitlement in accordance with the following formulae:

The Entitlement will be adjusted to:

$$\text{Adjusted Entitlement} = \text{Adjustment Factor} \times E$$

The Strike Price will be adjusted to:

$$\text{Adjusted Strike Price} = \frac{1}{\text{Adjustment Factor}} \times X$$

The Call Price will be adjusted to:

$$\text{Adjusted Call Price} = \frac{1}{\text{Adjustment Factor}} \times Y$$

Whereas:

$$\text{Adjustment Factor} = \frac{1 + M}{1 + (R/S) \times M}$$

E: Existing Entitlement immediately prior to the Rights Offer

X: Existing Strike Price immediately prior to the Rights Offer

Y: Existing Call Price immediately prior to the Rights Offer

S: Cum-Rights Share price, being the closing price of an existing Share, as derived from the daily quotation sheet of the Stock Exchange on the last Business Day on which the Shares are traded on a cum-rights basis

R: Subscription price per new Share specified in the Rights Offer plus an amount equal to any dividends or other benefits foregone to exercise the Right

M: Number of new Shares per existing Share (whether a whole or a fraction) each holder of an existing Share is entitled to subscribe or have

For the purposes of these terms and conditions, “**Rights**” means the right(s) attached to each existing Share or needed to acquire one new Share (as the case may be) which are given to a holder of existing Shares to subscribe at a fixed subscription price for new Shares pursuant to the Rights Offer (whether by the exercise of one Right, a part of a Right or an aggregate number of Rights).

(ii) The Adjusted Strike Price and the Adjusted Call Price (in each case rounded to the nearest 0.001) shall take effect on the same day that the Entitlement is adjusted.

(B) (i) If and whenever the Company shall make an issue of Shares credited as fully paid to holders of Shares generally by way of capitalisation of profits or reserves (and without any payment or other consideration being made or given by such holders) (a “**Bonus Issue**”), the Entitlement, the Strike Price and the Call Price will be adjusted, subject to Condition 5(B)(iii), on the Business Day on which the trading in the Shares of the Company becomes ex-entitlement in accordance with the following formulae:

The Entitlement will be adjusted to:

$$\text{Adjusted Entitlement} = \text{Adjustment Factor} \times E$$

The Strike Price will be adjusted to:

$$\text{Adjusted Strike Price} = \frac{1}{\text{Adjustment Factor}} \times X$$

The Call Price will be adjusted to:

$$\text{Adjusted Call Price} = \frac{1}{\text{Adjustment Factor}} \times Y$$

Where:

$$\text{Adjustment Factor} = 1 + M$$

E: Existing Entitlement immediately prior to the Bonus Issue

X: Existing Strike Price immediately prior to the Bonus Issue

Y: Existing Call Price immediately prior to the Bonus Issue

M: Number of additional Shares (whether a whole or a fraction) received by a holder of existing Shares for each Share held prior to the Bonus Issue

(ii) The Adjusted Strike Price and the Adjusted Call Price (which shall be rounded to the nearest 0.001) shall take effect on the same day that the Entitlement is adjusted.

- (iii) For the purposes of Conditions 5(A) and 5(B), the Issuer may determine that no adjustment will be made if the adjustment to the Entitlement is 1 per cent. or less of the Entitlement immediately prior to the adjustment, all as determined by the Issuer.
- (C) If and whenever the Company shall subdivide its outstanding share capital into a greater number of shares or consolidate its outstanding share capital into a smaller number of shares, the Entitlement shall be increased and the Strike Price and the Call Price shall be decreased (in the case of a subdivision) or the Entitlement shall be decreased and the Strike Price and the Call Price shall be increased (in the case of a consolidation) accordingly, in each case on the day on which the relevant subdivision or consolidation shall have taken effect. The Adjusted Strike Price and the Adjusted Call Price shall be rounded to the nearest 0.001.
- (D) If it is announced that the Company is to or may merge or consolidate with or into any other corporation (including becoming, by agreement or otherwise, a subsidiary of or controlled by any person or corporation) (except where the Company is the surviving corporation in a merger or consolidation) or that it is to or may sell or transfer all or substantially all of its assets, the rights attaching to the CBBCs may in the sole and absolute discretion of the Issuer be amended no later than the Business Day preceding the consummation of such merger, consolidation, sale or transfer (each a “**Restructuring Event**”) (as determined by the Issuer in its sole and absolute discretion).

The rights attaching to the CBBCs after the adjustment shall, after such Restructuring Event, relate to the number of shares of the corporation(s) resulting from or surviving such Restructuring Event or other securities (the “**Substituted Securities**”) and/or cash offered in substitution for the affected Shares, as the case may be, to which the holder of such number of Shares to which the CBBCs related immediately before such Restructuring Event would have been entitled upon such Restructuring Event. Thereafter the provisions hereof shall apply to such Substituted Securities, provided that any Substituted Securities may, in the sole and absolute discretion of the Issuer, be deemed to be replaced by an amount in the relevant currency equal to the market value or, if no market value is available, fair value, of such Substituted Securities in each case as determined by the Issuer as soon as practicable after such Restructuring Event is effected.

For the avoidance of doubt, any remaining Shares shall not be affected by this paragraph (D) and, where cash is offered in substitution for Shares or is deemed to replace Substituted Securities as described above, references in these terms and conditions to the Shares shall include any such cash.

- (E) Generally, no adjustment will be made for an ordinary cash dividend (whether or not it is offered with a scrip alternative). For any other forms of cash distribution (each a “**Cash Distribution**”) announced by the Company, such as a cash bonus, special dividend or extraordinary dividend, no adjustment will be made unless the value of the Cash Distribution accounts for 2 per cent. or more of the Share’s closing price on the day of announcement by the Company.

If and whenever the Company shall make a Cash Distribution credited as fully paid to the holders of Shares generally, the Strike Price, the Call Price and the Entitlement shall be adjusted to take effect on the Business Day on which trading in the Shares becomes ex-entitlement (each a “**Dividend Adjustment Date**”) in accordance with the following formulae:

The Entitlement will be adjusted to:

$$\text{Adjusted Entitlement} = \text{Adjustment Factor} \times E$$

The Strike Price will be adjusted to:

$$\text{Adjusted Strike Price (which shall be rounded to the nearest 0.001)} = \frac{1}{\text{Adjustment Factor}} \times X$$

The Call Price will be adjusted to:

$$\text{Adjusted Call Price (which shall be rounded to the nearest 0.001)} = \frac{1}{\text{Adjustment Factor}} \times Y$$

Where:

$$\text{Adjustment Factor} = \frac{S - OD}{S - OD - CD}$$

E: Existing Entitlement immediately prior to the relevant Cash Distribution

X: Existing Strike Price immediately prior to the relevant Cash Distribution

Y: Existing Call Price immediately prior to the relevant Cash Distribution

S: The closing price of a Share, as derived from the daily quotation sheet of the Stock Exchange on the Business Day immediately prior to the Dividend Adjustment Date

OD: Amount of ordinary cash dividend per Share (applicable only if the date on which trading in the Shares becomes ex-entitlement in respect of the ordinary cash dividend is the same as the Dividend Adjustment Date)

CD: Amount of the relevant Cash Distribution per Share

- (F) Without prejudice to and notwithstanding any prior adjustment(s) made pursuant to the applicable terms and conditions, the Issuer may (but shall not be obliged to) make such other adjustments to the terms and conditions of the CBBCs as appropriate where any event (including the events as contemplated in the applicable terms and conditions) occurs and irrespective of, in substitution for, or in addition to the provisions contemplated in applicable terms and conditions, provided that such adjustment is: (a) not materially prejudicial to the interests of the Holders generally (without considering the circumstances of any individual Holder or the tax or other consequences of such adjustment in any particular jurisdiction); or (b) determined by the Issuer in good faith to be appropriate and commercially reasonable.
- (G) The Issuer shall determine any adjustment or amendment and its determination shall be conclusive and binding on the Holders save in the case of manifest error. Any such adjustment or amendment shall be set out in a notice, which shall be given to the Holders in accordance with Condition 9 as soon as practicable after the determination thereof.

6 Purchase by the Issuer

The Issuer and any of its affiliates may purchase CBBCs at any time on or after the date of their issue and any CBBCs which are so purchased may be surrendered for cancellation or offered from time to time in one or more transactions in the over-the-counter market or otherwise at prevailing market prices or in negotiated transactions, at the sole and absolute discretion of the Issuer or any such affiliate, as the case may be.

7 Global Certificate

A global certificate (the “**Global Certificate**”) representing the CBBCs will be deposited within CCASS and registered in the name of HKSCC Nominees Limited (or its successor) or another nominee of Hong Kong Securities Clearing Company Limited. The Global Certificate will not be exchangeable for definitive certificates.

8 Meeting of Holders; Modification

- (A) *Meetings of Holders.* Notices for convening meetings to consider any matter affecting the Holders’ interests will be given to the Holders in accordance with the provisions of Condition 9.

Every question submitted to a meeting of the Holders shall be decided by poll. A meeting may be convened by the Issuer or by the Holders holding not less than 10 per cent. of the CBBCs for the time being remaining unexercised. The quorum at any such meeting for passing an Extraordinary Resolution will be two or more persons (including any nominee appointed by the Holders) holding or representing not less than 25 per cent. of the CBBCs for the time being remaining unexercised, or at any adjourned meeting two or more persons (including any nominee appointed by the Holders) being or representing Holders whatever the number of CBBCs so held or represented.

“**Extraordinary Resolution**” means a resolution passed at a duly convened meeting by not less than three-quarters of the votes cast by such Holders as, being entitled to do so, vote in person or by proxy.

An Extraordinary Resolution passed at any meeting of the Holders shall be binding on all Holders, whether or not they are present at the meeting.

Resolutions can be passed in writing without a meeting of the Holders being held if passed unanimously.

Where the Holder is a clearing house recognised by the laws of Hong Kong or its nominee(s), it may authorise such person or person(s) as it thinks fit to act as its representative(s) or proxy(ies) at any Holders’ meeting provided that, if more than one person is so authorised, the authorisation or proxy form must specify the number of CBBCs in respect of which each such person is so authorised. Each person so authorised will be entitled to exercise the same powers and right, including the right to vote on a show of hands, on behalf of the recognised clearing house or its nominee(s) as that clearing house or its nominee(s) as if he was an individual Holder.

- (B) *Modification.* The Issuer may, without the consent of the Holders, effect any modification of the terms and conditions of the CBBCs or the Instrument which, in the opinion of the Issuer, is (i) not materially prejudicial to the interests of the Holders generally (without considering the circumstances of any individual Holder or the tax or other consequences of such modification in any particular jurisdiction); (ii) of a formal, minor or technical nature; (iii) made to correct a manifest error; or (iv) necessary in order to comply with

mandatory provisions of the laws or regulations of Hong Kong. Any such modification shall be binding on the Holders and shall be notified to them by the Issuer as soon as practicable thereafter in accordance with Condition 9.

9 Notices

All notices in English and Chinese to the Holders will be validly given if published on the website of the Hong Kong Exchanges and Clearing Limited. In such circumstances, the Issuer shall not be required to dispatch copies of the notice to the Holders.

10 Liquidation

In the event of a liquidation or dissolution or winding up of the Company or the appointment of a liquidator, receiver or administrator or analogous person under applicable law in respect of the whole or substantially the whole of the undertaking, property or assets of the Company, all CBBCs will lapse and shall cease to be valid for any purpose. In the case of a voluntary liquidation, on the effective date of the resolution and, in the case of an involuntary liquidation or dissolution, on the date of the relevant court order or, in the case of the appointment of a liquidator or receiver or administrator or analogous person under applicable law in respect of the whole or substantially the whole of the Company's undertaking, property or assets, on the date when such appointment is effective but subject (in any such case) to any contrary mandatory requirement of law.

11 Delisting of Company

- (A) If at any time the Shares cease to be listed on the Stock Exchange, the Issuer shall give effect to these terms and conditions in such manner and make such adjustments to the rights attaching to the CBBCs as it shall, in its sole and absolute discretion, consider appropriate to ensure, so far as it is reasonably able to do so, that the interests of the Holders generally are not materially prejudiced as a consequence of such delisting (without considering the individual circumstances of the Holder or the tax or other consequences that may result in any particular jurisdiction).
- (B) Without prejudice to the generality of Condition 11(A), where the Shares are or, upon the delisting, become, listed on any other stock exchange, these terms and conditions may, in the sole and absolute discretion of the Issuer, be amended to the extent necessary to allow for the substitution of that other stock exchange in place of the Stock Exchange and the Issuer may, without the consent of the Holders, make such adjustments to the entitlements of the Holders on exercise (including, if appropriate, by converting foreign currency amounts at prevailing market rates into amounts in the relevant currency) as it shall consider appropriate in the circumstances.
- (C) Any adjustment, amendment or determination made by the Issuer pursuant to this Condition 11 shall be conclusive and binding on the Holders save in the case of manifest error. Notice of any adjustments or amendments shall be given to the Holders in accordance with Condition 9 as soon as practicable after they are determined.

12 Further Issues

The Issuer shall be at liberty from time to time, without the consent of the Holders, to create and issue further callable bull/bear contracts, upon such terms as to issue price and otherwise as the Issuer may determine so as to form a single series with the CBBCs.

13 Illegality or Impracticability

The Issuer is entitled to terminate the CBBCs if it determines in good faith and in a commercially reasonable manner that, for reasons beyond its control, it has become or it will become illegal or impracticable:

- (a) for it to perform its obligations under the CBBCs, in whole or in part as a result of:
 - (i) the adoption of, or any change in, any relevant law or regulation (including any tax law); or
 - (ii) the promulgation of, or any change in, the interpretation by any court, tribunal, governmental, administrative, legislative, regulatory or judicial authority or power with competent jurisdiction of any relevant law or regulation (including any tax law),(each of (i) and (ii), a “**Change in Law Event**”); or
- (b) for it or any of its affiliates to maintain the Issuer’s hedging arrangements with respect to the CBBCs due to a Change in Law Event.

Upon the occurrence of a Change in Law Event, the Issuer will, if and to the extent permitted by the applicable law or regulation, pay to each Holder a cash amount that the Issuer determines in good faith and in a commercially reasonable manner to be the fair market value in respect of each CBBC held by such Holder immediately prior to such termination (ignoring such illegality or impracticability) less the cost to the Issuer of unwinding any related hedging arrangement as determined by the Issuer in its sole and absolute discretion. Payment will be made in such manner as shall be notified to the Holders in accordance with Condition 9.

14 Good Faith and Commercially Reasonable Manner

Any exercise of discretion by the Issuer under these terms and conditions will be made in good faith and in a commercially reasonable manner.

15 Governing Law

The CBBCs and the Instrument will be governed by and construed in accordance with the laws of the Hong Kong Special Administrative Region of the People’s Republic of China (“**Hong Kong**”). The Issuer and the Holder (by its acquisition of the CBBCs) shall be deemed to have submitted for all purposes in connection with the CBBCs and the Instrument to the non-exclusive jurisdiction of the courts of Hong Kong.

16 Language

In the event of any inconsistency between the English version and Chinese translation of these terms and conditions, the English version shall govern and prevail.

Sponsor
Standard Chartered Bank (Hong Kong) Limited
32/F, 4-4A Des Voeux Road Central
Hong Kong

PART B – TERMS AND CONDITIONS OF CASH-SETTLED CALLABLE BULL/BEAR CONTRACTS RELATING TO AN INDEX

These master terms and conditions will, together with the supplemental provisions contained in the relevant supplemental listing document and subject to completion and amendment, be endorsed on the back of the relevant global certificate. The applicable supplemental listing document in relation to the issue of any series of CBBCs may specify other terms and conditions which shall, to the extent so specified or to the extent inconsistent with these master terms and conditions, replace or modify these master terms and conditions for the purpose of such series of CBBCs. Capitalised terms used in these master terms and conditions and not otherwise defined therein shall have the meaning given to them in the relevant supplemental listing document.

1 Form; Status; Transfer and Title

- (A) The callable bull/bear contracts or “**CBBCs**” (which expression shall, unless the context otherwise requires, include any further CBBCs issued pursuant to Condition 10) relating to the Index as published by the Index Compiler are issued in registered form subject to and with the benefit of the instrument dated 25 June 2010 (the “**Instrument**”), made by Standard Chartered Bank (the “**Issuer**”).

A copy of the Instrument is available for inspection at the offices of Standard Chartered Bank (Hong Kong) Limited (the “**Sponsor**”) at 15th Floor, Two International Finance Centre, 8 Finance Street, Central, Hong Kong or such other place as notified pursuant to Condition 9 from time to time. The Holders (as hereinafter defined) are entitled to the benefit of, are bound by and are deemed to have notice of, all the provisions of the Instrument.

- (B) The settlement obligations of the Issuer in respect of the CBBCs represent general unsecured contractual obligations of the Issuer and of no other person which rank, and will rank, equally among themselves and pari passu with all other present and future unsecured and unsubordinated contractual obligations of the Issuer, except for obligations accorded preference by mandatory provisions of applicable law.

CBBCs represent general contractual obligations of the Issuer, and are not, nor is it the intention (expressed, implicit or otherwise) of the Issuer to create by the issue of CBBCs deposit liabilities of the Issuer or a debt obligation of any kind.

- (C) Transfers of CBBCs may be effected only in a Board Lot or integral multiples thereof in the Central Clearing and Settlement System (“**CCASS**”) in accordance with the General Rules of CCASS and the CCASS Operational Procedures in effect from time to time.
- (D) Each person who is for the time being shown in the register kept by or on behalf of the Issuer outside of Hong Kong as the holder shall be treated by the Issuer as the absolute owner and holder of the CBBCs (which shall be HKSCC Nominees Limited (or its successor) or another nominee of Hong Kong Securities Clearing Company Limited for so long as the CBBCs are accepted as eligible securities in CCASS). The expression “**Holder**” shall be construed accordingly.
- (E) Trading in CBBCs on The Stock Exchange of Hong Kong Limited (the “**Stock Exchange**”) shall be suspended after the occurrence of a Mandatory Call Event in accordance with the rules of the Stock Exchange. None of the Stock Exchange, the Issuer, the compiler of the Index (the “**Index Compiler**”) nor any of its affiliates shall have any responsibility towards the Holder for any losses suffered in connection with the

determination of a Mandatory Call Event, whether or not such losses are a result of the suspension of trading of the CBBCs, notwithstanding that such suspension may have occurred as a result of an error in the determination of the event.

2 CBBCs Rights and Exercise Expenses

- (A) Every Board Lot of the CBBCs entitles the Holder to payment of the Cash Settlement Amount (as defined in Condition 3(D)), if any, minus the determined Exercise Expenses (as defined in Condition 3(D)). If the Cash Settlement Amount is equal to or less than the determined Exercise Expenses, no amount is payable by the Issuer.
- (B) The Holder will be required to pay the Exercise Expenses in respect of the Mandatory Call Termination or Automatic Exercise of the CBBCs. To effect such payment, an amount equivalent to the Exercise Expenses will be deducted by the Issuer from the Cash Settlement Amount in accordance with Condition 3(D). Any Exercise Expenses which have not been determined by the Issuer after the end of the MCE Valuation Period or on the Valuation Date (as the case may be) shall be notified as soon as practicable after determination thereof by the Issuer to the Holder and shall be paid by the Holder forthwith in immediately available funds no later than 3 Business Days after the Holder receives notice of any unpaid Exercise Expenses.
- (C) An irrevocable authorisation is deemed to be given to the Issuer to deduct any determined Exercise Expenses from the Cash Settlement Amount.

3 Mandatory Call Termination and Automatic Exercise

- (A) Upon the occurrence of a Mandatory Call Event, the CBBCs will terminate automatically on the day on which the Mandatory Call Event occurs (“**Mandatory Call Termination**”) and the Issuer will give notice of the occurrence of the Mandatory Call Event to the Holders in accordance with Condition 9. Trading in the CBBCs will be suspended immediately upon the occurrence of a Mandatory Call Event and all Post MCE Trades will be cancelled and will not be recognised by the Stock Exchange or the Issuer.

Whereas:

“**Business Day**” means a day (excluding Saturdays) on which the Stock Exchange is scheduled to open for dealings in Hong Kong and banks are open for business in Hong Kong;

“**CCASS Settlement Day**” has the meaning ascribed to the term “Settlement Day” in the General Rules of CCASS and the CCASS Operational Procedures in effect from time to time, subject to such modification and amendment prescribed by Hong Kong Securities Clearing Company Limited from time to time;

“**Index Business Day**” means a day on which the Index Exchange is scheduled to open for trading for its regular trading sessions;

“**Mandatory Call Event**” occurs when the Spot Level of the Index at any time during an Index Business Day in the Observation Period is (in the case of a series of bull CBBCs) at or below the Call Level or (in the case of a series of bear CBBCs) at or above the Call Level;

“**Observation Period**” means the period from and including the Observation Commencement Date to and including the Trading Day immediately preceding the Expiry Date;

“**Post MCE Trades**” has the meaning given to it in the relevant Supplemental Listing Document, subject to such modification and amendment prescribed by the Stock Exchange from time to time;

“**Spot Level**” means, unless otherwise specified in the relevant Supplemental Listing Document, the spot level of the Index as compiled and published by the Index Compiler; and

“**Trading Day**” means any day on which the Stock Exchange is scheduled to open for trading for its regular trading sessions.

- (B) Any CBBCs with respect to which a Mandatory Call Event has not occurred during the Observation Period shall be deemed to be automatically exercised on the Expiry Date (the “**Automatic Exercise**”).
- (C) Following the occurrence of the Mandatory Call Event or the Expiry Date, the Global Certificate will be cancelled.
- (D) Following a Mandatory Call Termination or the Automatic Exercise in accordance with Conditions 3(A) or 3(B), the Issuer will as soon as practicable and on a day no later than the Settlement Date in accordance with these terms and conditions procure payment of the aggregate Cash Settlement Amount minus the determined Exercise Expenses for all CBBCs terminated or deemed automatically exercised in favour of the Holder as appearing in the register kept by or on behalf of the Issuer.

Any payment of the Cash Settlement Amount made pursuant to this Condition 3(D) shall be delivered at the risk and expense of the Holder to the Holder as recorded on the register, or such bank, broker or agent in Hong Kong (if any) as directed by the Holder.

Whereas:

“**Cash Settlement Amount**” per Board Lot means, subject to adjustment as provided in Condition 5, an amount calculated by the Issuer in accordance with the following formula (and if applicable, either (i) converted into the Settlement Currency at the Exchange Rate or, as the case may be, (ii) converted into the Interim Currency at the First Exchange Rate and then (if applicable) converted into the Settlement Currency at the Second Exchange Rate):

- (i) if no Mandatory Call Event has occurred:

- (a) in the case of a series of bull CBBCs:

$$\text{“Cash Settlement Amount” per Board Lot} = \frac{(\text{Closing Level} - \text{Strike Level}) \times \text{one Board Lot} \times \text{Index Currency Amount}}{\text{Divisor}}$$

- (b) in the case of a series of bear CBBCs:

$$\text{“Cash Settlement Amount” per Board Lot} = \frac{(\text{Strike Level} - \text{Closing Level}) \times \text{one Board Lot} \times \text{Index Currency Amount}}{\text{Divisor}}$$

- (ii) following a Mandatory Call Event:
 - (a) in the case of a series of Category R CBBCs, the Residual Value; or
 - (b) in the case of a series of Category N CBBCs, zero.

Provided that if the relevant formula above produces an amount that is equal to or less than the determined Exercise Expenses, then no amount shall be payable. The aggregate Cash Settlement Amount payable to a Holder shall be expressed in the Settlement Currency;

“**Closing Level**” has the meaning given to it in the relevant Supplemental Listing Document, subject to any adjustment in accordance with Condition 5;

“**Exercise Expenses**” means all taxes, duties and/or expenses, including all applicable depository, transaction or exercise charges, stamp duties, stamp duty reserve tax, issue, registration, securities transfer and/or other taxes or duties, arising in connection with (i) the Mandatory Call Termination (not applicable in the case of Category N CBBCs) or Automatic Exercise of such CBBC and/or (ii) any payment due following Mandatory Call Termination or Automatic Exercise in respect of such CBBC;

“**Market Disruption Event**” means:

- (a) the occurrence or existence on any Trading Day or Index Business Day during the one-half hour period that ends at the close of trading on the Index Exchange, of any of:
 - (i) the suspension of or material limitation on the trading of a material number of constituent securities that comprise the Index;
 - (ii) the suspension of or material limitation on the trading of options or futures contracts relating to the Index on any exchanges on which such contracts are traded; or
 - (iii) the imposition of any exchange controls in respect of any currencies involved in determining the Cash Settlement Amount.

For the purposes of this paragraph (a), (X) a limitation of the number of hours or days of trading will not constitute a Market Disruption Event if it results from an announced change in the regular business hours of any relevant exchange, and (Y) a limitation on trading imposed by reason of movements in price exceeding the levels permitted by any relevant exchange will constitute a Market Disruption Event;

- (b) (where the Index Exchange is the Stock Exchange) the issuance of the tropical cyclone warning signal number 8 or above or the issuance of a “BLACK” rainstorm signal on any day which either (i) results in the Stock Exchange being closed for trading for an entire day; or (ii) results in the Stock Exchange being closed prior to its regular time for close of trading for the relevant day (for the avoidance of doubt, in the case when the Stock Exchange is scheduled to open for the morning trading session only, closed prior to its regular time for close of trading for the morning session), PROVIDED THAT there shall be no Market Disruption Event solely by reason of the Stock Exchange opening for trading later than its regular time for the opening of trading on any day as a result of the tropical cyclone warning signal number 8 or above or the “BLACK” rainstorm signal having been issued;

- (c) a limitation or closure of the Index Exchange due to any other unforeseen circumstances; or
- (d) any circumstances beyond the control of the Issuer in which the Closing Level or, if applicable, the Exchange Rate, the First Exchange Rate or the Second Exchange Rate (as the case may be) cannot be determined by the Issuer in the manner set out in these terms and conditions or in such other manner as the Issuer considers appropriate at such time after taking into account all the relevant circumstances;

“**Maximum Index Level**” means the highest Spot Level of the Index during the MCE Valuation Period;

“**MCE Valuation Period**” means:

- (a) in respect of an Index Exchange located in Hong Kong, the period commencing from and including the moment upon which the Mandatory Call Event occurs (the trading session on the Index Exchange during which the Mandatory Call Event occurs is the “**1st Session**”) and up to the end of the trading session on the Index Exchange immediately following the 1st Session (“**2nd Session**”) unless, in the determination of the Issuer in its good faith, the 2nd Session for any reason (including, without limitation, a Market Disruption Event occurring and subsisting in the 2nd Session) does not contain any continuous period of 1 hour or more than 1 hour during which Spot Levels are available, the MCE Valuation Period shall be extended to the end of the subsequent trading session on the Index Exchange following the 2nd Session during which Spot Levels are available for a continuous period of at least 1 hour notwithstanding the existence or continuance of a Market Disruption Event in such postponed trading session, unless the Issuer determines in its good faith that each trading session on each of the four Index Business Days immediately following the date on which the Mandatory Call Event occurs does not contain any continuous period of 1 hour or more than 1 hour during which Spots Levels are available. In that case:
 - (i) the period commencing from the 1st Session up to, and including, the last trading session of the fourth Index Business Day on the Index Exchange immediately following the day on which the Mandatory Call Event occurs shall be deemed to be the MCE Valuation Period; and
 - (ii) the Issuer shall determine the Maximum Index Level or the Minimum Index Level (as the case may be) having regard to the then prevailing market conditions, the last reported Spot Level and such other factors as the Issuer may determine to be relevant in its good faith.

For the avoidance of doubt, all Spot Levels available throughout the extended MCE Valuation Period shall be taken into account to determine the Maximum Index Level or the Minimum Index Level (as the case may be) for the calculation of the Residual Value.

For the purposes of this definition,

- (a) the pre-opening session, the morning session and, in the case of half day trading, the closing auction session (if applicable) of the same day; and
- (b) the afternoon session and the closing auction session (if applicable) of the same day,

shall each be considered as one trading session only; or

- (b) in respect of an Index Exchange located outside Hong Kong, the period specified in the relevant Supplemental Listing Document;

“**Minimum Index Level**” means the lowest Spot Level of the Index during the MCE Valuation Period;

“**Residual Value**” per Board Lot means, subject to adjustment as provided in Condition 5, an amount calculated by the Issuer in accordance with the following formula (and if applicable, either (i) converted into the Settlement Currency at the Exchange Rate or, as the case may be, (ii) converted into the Interim Currency at the First Exchange Rate and then (if applicable) converted into the Settlement Currency at the Second Exchange Rate):

- (i) in the case of a series of bull CBBCs:

$$\text{“Residual Value” per Board Lot} = \frac{(\text{Minimum Index Level} - \text{Strike Level}) \times \text{one Board Lot} \times \text{Index Currency Amount}}{\text{Divisor}}$$

- (ii) in the case of a series of bear CBBCs:

$$\text{“Residual Value” per Board Lot} = \frac{(\text{Strike Level} - \text{Maximum Index Level}) \times \text{one Board Lot} \times \text{Index Currency Amount}}{\text{Divisor}}$$

“**Settlement Currency**” means the currency specified in the relevant Supplemental Listing Document; and

“**Settlement Date**” means the third CCASS Settlement Day after (i) the end of the MCE Valuation Period or (ii) the later of: (a) the Expiry Date; and (b) the day on which the Closing Level is determined in accordance with these terms and conditions (as the case may be).

“**Valuation Date**” means the date specified as such in the relevant Supplemental Listing Document. If the Issuer determines, in its sole and absolute discretion, that a Market Disruption Event has occurred on the Valuation Date, then the Issuer shall determine the Closing Level on the basis of its good faith estimate of the Closing Level that would have prevailed on that day but for the occurrence of the Market Disruption Event, provided that the Issuer, if applicable, may, but shall not be obliged to, determine such Closing Level by having regard to the manner in which futures contracts relating to the Index are calculated.

- (E) If as a result of an event beyond the control of the Issuer, it is not possible for the Issuer to procure payment electronically through CCASS by crediting the relevant bank account of the Holder on the original Settlement Date (“**Settlement Disruption Event**”), the Issuer shall use its reasonable endeavours to procure payment electronically through CCASS by crediting the relevant bank account of the Holder as soon as reasonably practicable after the original Settlement Date. The Issuer will not be liable to the Holder for any interest in respect of the amount due or any loss or damage that such Holder may suffer as a result of the existence of a Settlement Disruption Event, nor shall the Issuer be liable under any circumstances for any acts or defaults of CCASS in relation to the performance of its duties in relation to the CBBCs.

- (F) These terms and conditions shall not be construed so as to give rise to any relationship of agency or trust between the Stock Exchange, the Issuer, the Index Compiler, or its agent (including the Sponsor) or nominee and the Holder and neither the Stock Exchange, the Issuer, the Index Compiler, nor its agent (including the Sponsor) or nominee shall owe any duty of a fiduciary nature to the Holder.

None of the Stock Exchange, the Issuer, or the Index Compiler shall have any responsibility for any errors or omissions in the calculation and determination of any variables published by it or a third party and used in any calculation or determination made pursuant to these terms and conditions (including the determination as to the occurrence of the Mandatory Call Event) or in the calculation of the Cash Settlement Amount arising from such errors or omissions.

The Issuer's obligations to pay the Cash Settlement Amount shall be discharged by payment in accordance with Condition 3(D) above.

4 Sponsor

- (A) The Sponsor will not assume any obligation or duty to or any relationship or agency or trust for the Holder.
- (B) The Issuer reserves the right, subject to the appointment of a successor, at any time to vary or terminate the appointment of the Sponsor and to appoint another sponsor provided that it will at all times maintain a sponsor in Hong Kong for so long as the CBBCs are listed on the Stock Exchange. Notice of any such termination or appointment of the Sponsor will be given to the Holders in accordance with Condition 9.

5 Adjustments to the Index

- (A) If the Index is (i) not calculated and announced by the Index Compiler but is calculated and published by a successor to the Index Compiler (the "**Successor Index Compiler**") acceptable to the Issuer or (ii) replaced by a successor index using, in the determination of the Issuer, the same or a substantially similar formula for and method of calculation as used in the calculation of the Index, then the Index will be deemed to be the index so calculated and announced by the Successor Index Compiler or that successor index, as the case may be.
- (B) If (i) on or prior to the Valuation Date, the Index Compiler or (if applicable) the Successor Index Compiler makes a material change in the formula for or the method of calculating the Index or in any other way materially modifies the Index (other than a modification prescribed in that formula or method to maintain the Index in the event of changes in constituent stock, contracts or commodities and other routine events), or (ii) on the Valuation Date, the Index Compiler or (if applicable) the Successor Index Compiler fails to calculate and publish the Index (other than as a result of a Market Disruption Event), then the Issuer shall determine the Closing Level using, in lieu of the level of the Index calculated for the purpose of final settlement of the contract specified in the relevant Supplemental Listing Document, the level for the Index as at the Valuation Date as determined by the Issuer in accordance with the formula for and method of calculating the Index last in effect prior to the change or failure, but using only those securities/commodities that comprised the Index immediately prior to that change or failure (other than those securities that have since ceased to be listed on the relevant exchange).

- (C) Without prejudice to and notwithstanding any prior adjustment(s) made pursuant to the applicable terms and conditions, the Issuer may (but shall not be obliged to) make such other adjustments to the terms and conditions of the CBBCs as appropriate where any event (including the events as contemplated in the applicable terms and conditions) occurs and irrespective of, in substitution for, or in addition to the provisions contemplated in applicable terms and conditions, provided that such adjustment is: (a) not materially prejudicial to the interests of the Holders generally (without considering the circumstances of any individual Holder or the tax or other consequences of such adjustment in any particular jurisdiction); or (b) determined by the Issuer in good faith to be appropriate and commercially reasonable.
- (D) All determinations made by the Issuer pursuant hereto will be conclusive and binding on the Holders. The Issuer will give, or procure that there is given, notice as soon as practicable of any determinations by publication in accordance with Condition 9.

6 Purchase by the Issuer

The Issuer and any of its affiliates may purchase CBBCs at any time on or after the date of their issue and any CBBCs which are so purchased may be surrendered for cancellation or offered from time to time in one or more transactions in the over-the-counter market or otherwise at prevailing market prices or in negotiated transactions, at the sole and absolute discretion of the Issuer or any such affiliate, as the case may be.

7 Global Certificate

A global certificate (the “**Global Certificate**”) representing the CBBCs will be deposited within CCASS and registered in the name of HKSCC Nominees Limited (or its successor) or another nominee of Hong Kong Securities Clearing Company Limited. The Global Certificate will not be exchangeable for definitive certificates.

8 Meeting of Holders; Modification

- (a) *Meetings of Holders.* Notices for convening meetings to consider any matter affecting the Holders’ interests will be given to the Holders in accordance with the provisions of Condition 9.

Every question submitted to a meeting of the Holders shall be decided by poll. A meeting may be convened by the Issuer or by the Holders holding not less than 10 per cent. of the CBBCs for the time being remaining unexercised. The quorum at any such meeting for passing an Extraordinary Resolution will be two or more persons (including any nominee appointed by the Holders) holding or representing not less than 25 per cent. of the CBBCs for the time being remaining unexercised, or at any adjourned meeting two or more persons (including any nominee appointed by the Holders) being or representing Holders whatever the number of CBBCs so held or represented.

“**Extraordinary Resolution**” means a resolution passed at a duly convened meeting by not less than three-quarters of the votes cast by such Holders as, being entitled to do so, vote in person or by proxy.

An Extraordinary Resolution passed at any meeting of the Holders shall be binding on all the Holders, whether or not they are present at the meeting.

Resolutions can be passed in writing without a meeting of the Holders being held if passed unanimously.

Where the Holder is a clearing house recognised by the laws of Hong Kong or its nominee(s), it may authorise such person or person(s) as it thinks fit to act as its representative(s) or proxy(ies) at any Holders' meeting provided that, if more than one person is so authorised, the authorisation or proxy form must specify the number of CBBCs in respect of which each such person is so authorised. Each person so authorised will be entitled to exercise the same powers and right, including the right to vote on a show of hands, on behalf of the recognised clearing house or its nominee(s) as that clearing house or its nominee(s) as if he was an individual Holder.

- (b) *Modification.* The Issuer may, without the consent of the Holders, effect any modification of the terms and conditions of the CBBCs or the Instrument which, in the opinion of the Issuer, is (i) not materially prejudicial to the interests of the Holders generally (without considering the circumstances of any individual Holder or the tax or other consequences of such modification in any particular jurisdiction); (ii) of a formal, minor or technical nature; (iii) made to correct a manifest error; or (iv) necessary in order to comply with mandatory provisions of the laws or regulations of Hong Kong. Any such modification shall be binding on the Holders and shall be notified to them by the Issuer as soon as practicable thereafter in accordance with Condition 9.

9 Notices

All notices in English and Chinese to the Holders will be validly given if published on the website of the Hong Kong Exchanges and Clearing Limited. In such circumstances, the Issuer shall not be required to dispatch copies of the notice to the Holders.

10 Further Issues

The Issuer shall be at liberty from time to time, without the consent of the Holders, to create and issue further callable bull/bear contracts, upon such terms as to issue price and otherwise as the Issuer may determine so as to form a single series with the CBBCs.

11 Illegality or Impracticability

The Issuer is entitled to terminate the CBBCs if it determines in good faith and in a commercially reasonable manner that, for reasons beyond its control, it has become or it will become illegal or impracticable:

- (a) for it to perform its obligations under the CBBCs, in whole or in part as a result of:
- (i) the adoption of, or any change in, any relevant law or regulation (including any tax law); or
 - (ii) the promulgation of, or any change in, the interpretation by any court, tribunal, governmental, administrative, legislative, regulatory or judicial authority or power with competent jurisdiction of any relevant law or regulation (including any tax law),
- (each of (i) and (ii), a “**Change in Law Event**”); or
- (b) for it or any of its affiliates to maintain the Issuer's hedging arrangements with respect to the CBBCs due to a Change in Law Event.

Upon the occurrence of a Change in Law Event, the Issuer will, if and to the extent permitted by the applicable law or regulation, pay to each Holder a cash amount that the Issuer determines in good faith and in a commercially reasonable manner to be the fair market value in respect of each

CBBC held by such Holder immediately prior to such termination (ignoring such illegality or impracticability) less the cost to the Issuer of unwinding any related hedging arrangement as determined by the Issuer in its sole and absolute discretion. Payment will be made in such manner as shall be notified to the Holders in accordance with Condition 9.

12 Good Faith and Commercially Reasonable Manner

Any exercise of discretion by the Issuer under these terms and conditions will be made in good faith and in a commercially reasonable manner.

13 Governing Law

The CBBCs and the Instrument will be governed by and construed in accordance with the laws of the Hong Kong Special Administrative Region of the People's Republic of China ("**Hong Kong**"). The Issuer and the Holder (by its acquisition of the CBBCs) shall be deemed to have submitted for all purposes in connection with the CBBCs and the Instrument to the non-exclusive jurisdiction of the courts of Hong Kong.

14 Language

In the event of any inconsistency between the English version and Chinese translation of these terms and conditions, the English version shall govern and prevail.

Sponsor

Standard Chartered Bank (Hong Kong) Limited
32/F, 4-4A Des Voeux Road Central
Hong Kong

PART C – TERMS AND CONDITIONS OF CASH-SETTLED CALLABLE BULL/BEAR CONTRACTS RELATING TO THE UNITS OF A FUND OR TRUST

These master terms and conditions will, together with the supplemental provisions contained in the relevant supplemental listing document and subject to completion and amendment, be endorsed on the back of the relevant global certificate. The applicable supplemental listing document in relation to the issue of any series of CBBCs may specify other terms and conditions which shall, to the extent so specified or to the extent inconsistent with these master terms and conditions, replace or modify these master terms and conditions for the purpose of such series of CBBCs. Capitalised terms used in these master terms and conditions and not otherwise defined therein shall have the meaning given to them in the relevant supplemental listing document.

1 Form; Status; Transfer and Title

- (A) The callable bull/bear contracts or “**CBBCs**” (which expression shall, unless the context otherwise requires, include any further CBBCs issued pursuant to Condition 12) relating to the Units of the Fund or Trust are issued in registered form subject to and with the benefit of the instrument dated 25 June 2010 (the “**Instrument**”) by Standard Chartered Bank (the “**Issuer**”).

A copy of the Instrument is available for inspection at the offices of Standard Chartered Bank (Hong Kong) Limited (the “**Sponsor**”) at 15th Floor, Two International Finance Centre, 8 Finance Street, Central, Hong Kong or such other place as notified pursuant to Condition 9 from time to time. The Holders (as hereinafter defined) are entitled to the benefit of, are bound by and are deemed to have notice of, all the provisions of the Instrument.

- (B) The settlement obligations of the Issuer in respect of the CBBCs represent general unsecured contractual obligations of the Issuer and of no other person which rank, and will rank, equally among themselves and *pari passu* with all other present and future unsecured and unsubordinated contractual obligations of the Issuer, except for obligations accorded preference by mandatory provisions of applicable law.

CBBCs represent general contractual obligations of the Issuer, and are not, nor is it the intention (expressed, implicit or otherwise) of the Issuer to create by the issue of CBBCs deposit liabilities of the Issuer or a debt obligation of any kind.

- (C) Transfers of CBBCs may be effected only in a Board Lot or integral multiples thereof in the Central Clearing and Settlement System (“**CCASS**”) in accordance with the General Rules of CCASS and the CCASS Operational Procedures in effect from time to time.
- (D) Each person who is for the time being shown in the register kept by or on behalf of the Issuer outside of Hong Kong as the holder shall be treated by the Issuer as the absolute owner and holder of the CBBCs (which shall be HKSCC Nominees Limited (or its successor) or another nominee of Hong Kong Securities Clearing Company Limited for so long as the CBBCs are accepted as eligible securities in CCASS). The expression “**Holder**” shall be construed accordingly.
- (E) Trading in CBBCs on The Stock Exchange of Hong Kong Limited (the “**Stock Exchange**”) shall be suspended after the occurrence of a Mandatory Call Event in accordance with the rules of the Stock Exchange. None of the Stock Exchange, the Issuer nor any of its affiliates shall have any responsibility towards the Holder for any losses suffered in connection with the determination of a Mandatory Call Event, whether or not

such losses are a result of the suspension of trading of the CBBCs, notwithstanding that such suspension may have occurred as a result of an error in the determination of the event.

2 CBBCs Rights and Exercise Expenses

- (A) Every Board Lot of the CBBCs entitles the Holder to payment of the Cash Settlement Amount (as defined in Condition 3(D)), if any, minus the determined Exercise Expenses (as defined in Condition 3(D)). If the Cash Settlement Amount is equal to or less than the determined Exercise Expenses, no amount is payable by the Issuer.
- (B) The Holder will be required to pay the Exercise Expenses in respect of a Mandatory Call Termination or Automatic Exercise of the CBBCs. To effect such payment, an amount equivalent to the Exercise Expenses will be deducted by the Issuer from the Cash Settlement Amount in accordance with Condition 3(D). Any Exercise Expenses which have not been determined by the Issuer after the end of the MCE Valuation Period or on the Valuation Date (as the case may be) shall be notified as soon as practicable after determination thereof by the Issuer to the Holder and shall be paid by the Holder forthwith in immediately available funds no later than 3 Business Days after the Holder receives notice of any unpaid Exercise Expenses.
- (C) An irrevocable authorisation is deemed to be given to the Issuer to deduct any determined Exercise Expenses from the Cash Settlement Amount.

3 Mandatory Call Termination and Automatic Exercise

- (A) Upon the occurrence of a Mandatory Call Event, the CBBCs will terminate automatically on the day on which the Mandatory Call Event occurs (“**Mandatory Call Termination**”) and the Issuer will give notice of the occurrence of the Mandatory Call Event to the Holders in accordance with Condition 9. Trading in the CBBCs will be suspended immediately upon the occurrence of a Mandatory Call Event and all Post MCE Trades will be cancelled and will not be recognised by the Stock Exchange or the Issuer.

Whereas:

“**Business Day**” means a day (excluding Saturdays) on which the Stock Exchange is scheduled to open for dealings in Hong Kong and banks are open for business in Hong Kong;

“**CCASS Settlement Day**” has the meaning ascribed to the term “Settlement Day” in the General Rules of CCASS and the CCASS Operational Procedures in effect from time to time, subject to such modification and amendment prescribed by Hong Kong Securities Clearing Company Limited from time to time;

“**Mandatory Call Event**” occurs when the Spot Price of the Units at any time during a Trading Day in the Observation Period is (in the case of a series of bull CBBCs) at or below the Call Price or (in the case of a series of bear CBBCs) at or above the Call Price;

“**Observation Period**” means the period from and including the Observation Commencement Date to and including the Trading Day immediately preceding the Expiry Date;

“**Post MCE Trades**” has the meaning given to it in the relevant Supplemental Listing Document, subject to such modification and amendment prescribed by the Stock Exchange from time to time;

“**Spot Price**” means:

- (i) in respect of a continuous trading session of the Stock Exchange, the price per Unit concluded by means of automatic order matching on the Stock Exchange as reported in the official real-time dissemination mechanism for the Stock Exchange during such continuous trading session in accordance with the Rules and Regulations of the Stock Exchange prescribed by the Stock Exchange from time to time (“**Trading Rules**”), excluding direct business (as defined in the Trading Rules); and
- (ii) in respect of a pre-opening session or a closing auction session (if any) of the Stock Exchange, as the case may be, the final Indicative Equilibrium Price (as defined in the Trading Rules) of the Unit (if any) calculated at the end of the pre-order matching period of such pre-opening session or closing auction session (if any), as the case may be, in accordance with the Trading Rules, excluding direct business (as defined in the Trading Rules),

subject to such modification and amendment prescribed by the Stock Exchange from time to time; and

“**Trading Day**” means any day on which the Stock Exchange is scheduled to open for trading for its regular trading sessions.

- (B) Any CBBCs with respect to which a Mandatory Call Event has not occurred during the Observation Period shall be deemed to be automatically exercised on the Expiry Date (the “**Automatic Exercise**”).
- (C) Following the occurrence of the Mandatory Call Event or the Expiry Date, the Global Certificate will be cancelled.
- (D) Following a Mandatory Call Termination or the Automatic Exercise in accordance with Conditions 3(A) or 3(B), the Issuer will as soon as practicable and on a day no later than the Settlement Date in accordance with these terms and conditions procure payment of the aggregate Cash Settlement Amount minus the determined Exercise Expenses for all CBBCs terminated or deemed automatically exercised in favour of the Holder as appearing in the register kept by or on behalf of the Issuer.

Any payment of the Cash Settlement Amount made pursuant to this Condition 3(D) shall be delivered at the risk and expense of the Holder to the Holder as recorded on the register, or such bank, broker or agent in Hong Kong (if any) as directed by the Holder.

Whereas:

“**Cash Settlement Amount**” per Board Lot means, subject to adjustment as provided in Condition 5, an amount determined by the Issuer in accordance with the following formula:

(i) if no Mandatory Call Event has occurred:

(a) in the case of a series of bull CBBCs:

$$\text{“Cash Settlement Amount” per Board Lot} = \frac{\text{Entitlement} \times (\text{Closing Price} - \text{Strike Price}) \times \text{one Board Lot}}{\text{Number of CBBC(s) per Entitlement}}$$

(b) in the case of a series of bear CBBCs:

$$\text{“Cash Settlement Amount” per Board Lot} = \frac{\text{Entitlement} \times (\text{Strike Price} - \text{Closing Price}) \times \text{one Board Lot}}{\text{Number of CBBC(s) per Entitlement}}$$

(ii) following a Mandatory Call Event:

(a) in the case of a series of Category R CBBCs, the Residual Value; or

(b) in the case of a series of Category N CBBCs, zero;

Provided that if the relevant formula above produces an amount that is equal to or less than the determined Exercise Expenses, then no amount shall be payable. The aggregate Cash Settlement Amount payable to a Holder shall be expressed in the Settlement Currency;

“**Closing Price**” shall be the closing price of one Unit (as derived from the daily quotation sheet of the Stock Exchange, subject to any adjustments to such closing price as may be necessary to reflect any capitalisation, rights issue, distribution or the like) on the Valuation Date;

“**Entitlement**” means such number of Units to which the CBBC relates, as specified in the relevant Supplemental Listing Document;

“**Exercise Expenses**” means all taxes, duties and/or expenses, including all applicable depository, transaction or exercise charges, stamp duties, stamp duty reserve tax, issue, registration, securities transfer and/or other taxes or duties, arising in connection with (i) the Mandatory Call Termination (not applicable in the case of Category N CBBCs) or Automatic Exercise of such CBBC and/or (ii) any payment due following Mandatory Call Termination or Automatic Exercise in respect of such CBBC;

“**Market Disruption Event**” means:

(i) the occurrence or existence on any Trading Day during the one-half hour period that ends at the close of trading of any suspension of or limitation imposed on trading (by reason of movements in price exceeding limits permitted by the Stock Exchange or otherwise) on the Stock Exchange in (a) the Units; or (b) any options or futures contracts relating to the Units if, in any such case, that suspension or limitation is, in the determination of the Issuer, material;

- (ii) the issuance of the tropical cyclone warning signal number 8 or above or the issuance of a “BLACK” rainstorm signal on any day which either (i) results in the Stock Exchange being closed for dealings for an entire day; or (ii) results in the Stock Exchange being closed prior to its regular time for close of trading for the relevant day (for the avoidance of doubt, in the case when the Stock Exchange is scheduled to open for the morning trading session only, closed prior to its regular time for close of trading for the morning session), PROVIDED THAT there shall be no Market Disruption Event solely by reason of the Stock Exchange opening for trading later than its regular time for the opening of trading on any day as a result of the tropical cyclone warning signal number 8 or above or the “BLACK” rainstorm signal having been issued; or
- (iii) a limitation or closure of the Stock Exchange due to any other unforeseen circumstances;

“**Maximum Trade Price**” means the highest Spot Price of the Units during the MCE Valuation Period;

“**MCE Valuation Period**” means the period commencing from and including the moment upon which the Mandatory Call Event occurs (the trading session on the Stock Exchange during which the Mandatory Call Event occurs is the “**1st Session**”) and up to the end of the trading session on the Stock Exchange immediately following the 1st Session (“**2nd Session**”) unless, in the determination of the Issuer in its good faith, the 2nd Session for any reason (including, without limitation, a Market Disruption Event occurring and subsisting in the 2nd Session) does not contain any continuous period of 1 hour or more than 1 hour during which trading in the Units is permitted on the Stock Exchange with no limitation imposed, the MCE Valuation Period shall be extended to the end of the subsequent trading session following the 2nd Session during which trading in the Units is permitted on the Stock Exchange with no limitation imposed for a continuous period of at least 1 hour notwithstanding the existence or continuance of a Market Disruption Event in such postponed trading session, unless the Issuer determines in its good faith that each trading session on each of the four Trading Days immediately following the date on which the Mandatory Call Event occurs does not contain any continuous period of 1 hour or more than 1 hour during which trading in the Units is permitted on the Stock Exchange with no limitation imposed. In that case:

- (i) the period commencing from the 1st Session up to, and including, the last trading session on the Stock Exchange of the fourth Trading Day immediately following the day on which the Mandatory Call Event occurs shall be deemed to be the MCE Valuation Period; and
- (ii) the Issuer shall determine the Maximum Trade Price or the Minimum Trade Price (as the case may be) having regard to the then prevailing market conditions, the last reported Spot Price and such other factors as the Issuer may determine to be relevant in its good faith.

For the avoidance of doubt, all Spot Prices available throughout the extended MCE Valuation Period shall be taken into account to determine the Maximum Trade Price or the Minimum Trade Price (as the case may be) for the calculation of the Residual Value.

For the purposes of this definition,

- (a) the pre-opening session, the morning session and, in the case of half day trading, the closing auction session (if applicable) of the same day; and

(b) the afternoon session and the closing auction session (if applicable) of the same day, shall each be considered as one trading session only;

“**Minimum Trade Price**” means the lowest Spot Price of the Units during the MCE Valuation Period;

“**Residual Value**” per Board Lot means, subject to adjustment as provided in Condition 5:

(i) in the case of a series of bull CBBCs:

$$\text{“Residual Value” per Board Lot} = \frac{\text{Entitlement} \times (\text{Minimum Trade Price} - \text{Strike Price}) \times \text{one Board Lot}}{\text{Number of CBBC(s) per Entitlement}}$$

(ii) in the case of a series of bear CBBCs:

$$\text{“Residual Value” per Board Lot} = \frac{\text{Entitlement} \times (\text{Strike Price} - \text{Maximum Trade Price}) \times \text{one Board Lot}}{\text{Number of CBBC(s) per Entitlement}}$$

“**Settlement Currency**” means the currency specified in the relevant Supplemental Listing Document; and

“**Settlement Date**” means the third CCASS Settlement Day after (i) the end of the MCE Valuation Period or (ii) the later of: (a) the Expiry Date; and (b) the day on which the Closing Price is determined in accordance with these terms and conditions (as the case may be).

“**Valuation Date**” means the Trading Day immediately preceding the Expiry Date. If the Issuer determines, in its sole and absolute discretion, that a Market Disruption Event has occurred on the Valuation Date, then the Valuation Date shall be the first succeeding Trading Day on which the Issuer determines that there is no Market Disruption Event, unless the Issuer determines that there is a Market Disruption Event occurring on each of the four Trading Days immediately following the original date which (but for the Market Disruption Event) would have been the Valuation Date. In that case: (a) the fourth Trading Day immediately following the original date shall be deemed to be the Valuation Date (regardless of the Market Disruption Event); and (b) the Issuer shall determine the Closing Price having regard to the then prevailing market conditions, the last reported trading price of the Unit on the Stock Exchange and such other factors as the Issuer determines to be relevant.

- (E) If as a result of an event beyond the control of the Issuer, it is not possible for the Issuer to procure payment electronically through CCASS by crediting the relevant bank account of the Holder on the original Settlement Date (“**Settlement Disruption Event**”), the Issuer shall use its reasonable endeavours to procure payment electronically through CCASS by crediting the relevant bank account of the Holder as soon as reasonably practicable after the original Settlement Date. The Issuer will not be liable to the Holder for any interest in respect of the amount due or any loss or damage that such Holder may suffer as a result of the existence of a Settlement Disruption Event, nor shall the Issuer be liable under any circumstances for any acts or defaults of CCASS in relation to the performance of its duties in relation to the CBBCs.

- (F) These terms and conditions shall not be construed so as to give rise to any relationship of agency or trust between the Stock Exchange, the Issuer or its agent (including the Sponsor) or nominee and the Holder and neither the Stock Exchange, the Issuer nor its agent (including the Sponsor) or nominee shall owe any duty of a fiduciary nature to the Holder.

None of the Stock Exchange or the Issuer shall have any responsibility for any errors or omissions in the calculation and determination of any variables published by it or a third party and used in any calculation or determination made pursuant to these terms and conditions (including the determination as to the occurrence of the Mandatory Call Event) or in the calculation of the Cash Settlement Amount arising from such errors or omissions.

The Issuer's obligations to pay the Cash Settlement Amount shall be discharged by payment in accordance with Condition 3(D) above.

4 Sponsor

- (A) The Sponsor will not assume any obligation or duty to or any relationship or agency or trust for the Holder.
- (B) The Issuer reserves the right, subject to the appointment of a successor, at any time to vary or terminate the appointment of the Sponsor and to appoint another sponsor provided that it will at all times maintain a sponsor in Hong Kong for so long as the CBBCs are listed on the Stock Exchange. Notice of any such termination or appointment of the Sponsor will be given to the Holder in accordance with Condition 9.

5 Adjustments

Adjustments may be made by the Issuer to the terms of the CBBCs (including, but not limited to (i) the Strike Price, (ii) the Call Price and/or (iii) the Entitlement) on the basis of the following provisions:

- (A) (i) If and whenever the Fund or Trust shall, by way of Rights (as defined below), offer new Units for subscription at a fixed subscription price to the holders of existing Units pro rata to existing holdings (a "**Rights Offer**"), the Strike Price, the Call Price and the Entitlement shall be adjusted on the Business Day on which the trading in the Units of the Fund or Trust becomes ex-entitlement in accordance with the following formulae:

The Entitlement will be adjusted to:

$$\text{Adjusted Entitlement} = \text{Adjustment Factor} \times E$$

The Strike Price will be adjusted to:

$$\text{Adjusted Strike Price} = \frac{1}{\text{Adjustment Factor}} \times X$$

The Call Price will be adjusted to:

$$\text{Adjusted Call Price} = \frac{1}{\text{Adjustment Factor}} \times Y$$

Whereas:

$$\text{Adjustment Factor} = \frac{1 + M}{1 + (R/S) \times M}$$

E: Existing Entitlement immediately prior to the Rights Offer

X: Existing Strike Price immediately prior to the Rights Offer

Y: Existing Call Price immediately prior to the Rights Offer

S: Cum-rights Unit price, being the closing price of an existing Unit, as derived from the daily quotation sheet of the Stock Exchange on the last Business Day on which the Units are traded on a cum-rights basis

R: Subscription price per new Unit specified in the Rights Offer plus an amount equal to any dividends or other benefits foregone to exercise the Right

M: Number of new Units per existing Unit (whether a whole or a fraction) each holder of an existing Unit is entitled to subscribe or have

For the purposes of these terms and conditions, “**Rights**” means the right(s) attached to each existing Unit or needed to acquire one new Unit (as the case may be) which are given to a holder of existing Units to subscribe at a fixed subscription price for new Units pursuant to the Rights Offer (whether by the exercise of one Right, a part of a Right or an aggregate number of Rights).

(ii) The Adjusted Strike Price and the Adjusted Call Price (in each case rounded to the nearest 0.001) shall take effect on the same day that the Entitlement is adjusted.

(B) (i) If and whenever the Fund or Trust shall make an issue of Units credited as fully paid to holders of Units generally by way of capitalisation of profits or reserves (and without any payment or other consideration being made or given by such holders) (a “**Bonus Issue**”), the Entitlement, the Strike Price and the Call Price will be adjusted, subject to Condition 5(B)(iii), on the Business Day on which the trading in the Units of the Fund or Trust becomes ex-entitlement in accordance with the following formulae:

The Entitlement will be adjusted to:

$$\text{Adjusted Entitlement} = \text{Adjustment Factor} \times E$$

The Strike Price will be adjusted to:

$$\text{Adjusted Strike Price} = \frac{1}{\text{Adjustment Factor}} \times X$$

The Call Price will be adjusted to:

$$\text{Adjusted Call Price} = \frac{1}{\text{Adjustment Factor}} \times Y$$

Where:

Adjustment Factor = $1 + M$

E: Existing Entitlement immediately prior to the Bonus Issue

X: Existing Strike Price immediately prior to the Bonus Issue

Y: Existing Call Price immediately prior to the Bonus Issue

M: Number of additional Units (whether a whole or a fraction) received by a holder of existing Units for each Unit held prior to the Bonus Issue

- (ii) The Adjusted Strike Price and the Adjusted Call Price (which shall be rounded to the nearest 0.001) shall take effect on the same day that the Entitlement is adjusted.
 - (iii) For the purposes of Conditions 5(A) and 5(B), the Issuer may determine that no adjustment will be made if the adjustment to the Entitlement is 1 per cent. or less of the Entitlement immediately prior to the adjustment, all as determined by the Issuer.
- (C) If and whenever the Fund or Trust shall subdivide its Units or any class of its outstanding Units into a greater number of Units or consolidate the Units or any class of its outstanding Units into a smaller number of Units, the Entitlement shall be increased and the Strike Price and the Call Price shall be decreased (in the case of a subdivision) or the Entitlement shall be decreased and the Strike Price and the Call Price shall be increased (in the case of a consolidation) accordingly, in each case on the day on which the relevant subdivision or consolidation shall have taken effect. The Adjusted Strike Price and the Adjusted Call Price shall be rounded to the nearest 0.001.
- (D) If it is announced that the Fund or Trust is to or may merge or consolidate with or into any other trust or corporation (including becoming, by agreement or otherwise, a subsidiary of or controlled by any person or corporation) (except where the Fund or Trust is the surviving entity in a merger or consolidation) or that it is to or may sell or transfer all or substantially all of its assets, the rights attaching to the CBBCs may in the sole and absolute discretion of the Issuer be amended no later than the Business Day preceding the consummation of such merger, consolidation, sale or transfer (each a “**Restructuring Event**”) (as determined by the Issuer in its sole and absolute discretion).

The rights attaching to the CBBCs after the adjustment shall, after such Restructuring Event, relate to the number of units of the trust(s) or fund(s) resulting from or surviving such Restructuring Event or other securities (the “**Substituted Securities**”) and/or cash offered in substitution for the affected Units, as the case may be, to which the holder of such number of Units to which the CBBCs related immediately before such Restructuring Event would have been entitled upon such Restructuring Event. Thereafter the provisions hereof shall apply to such Substituted Securities, provided that any Substituted Securities may, in the sole and absolute discretion of the Issuer, be deemed to be replaced by an amount in the relevant currency equal to the market value or, if no market value is available, fair value, of such Substituted Securities in each case as determined by the Issuer as soon as practicable after such Restructuring Event is effected.

For the avoidance of doubt, any remaining Units shall not be affected by this paragraph (D) and, where cash is offered in substitution for Units or is deemed to replace Substituted Securities as described above, references in these terms and conditions to the Units shall include any such cash.

- (E) Generally, no adjustment will be made for an ordinary cash dividend (whether or not it is offered with a scrip alternative). For any other forms of cash distribution (each a “**Cash Distribution**”) announced by the Fund or Trust, such as a cash bonus, special dividend or extraordinary dividend, no adjustment will be made unless the value of the Cash Distribution accounts for 2 per cent. or more of the Unit’s closing price on the day of announcement by the Fund or Trust.

If and whenever the Fund or Trust shall make a Cash Distribution credited as fully paid to the holders of Units generally, the Strike Price, the Call Price and the Entitlement shall be adjusted to take effect on the Business Day on which trading in the Units becomes ex-entitlement (each a “**Dividend Adjustment Date**”) in accordance with the following formulae:

The Entitlement will be adjusted to:

$$\text{Adjusted Entitlement} = \text{Adjustment Factor} \times E$$

The Strike Price will be adjusted to:

$$\text{Adjusted Strike Price (which shall be rounded to the nearest 0.001)} = \frac{1}{\text{Adjustment Factor}} \times X$$

The Call Price will be adjusted to:

$$\text{Adjusted Call Price (which shall be rounded to the nearest 0.001)} = \frac{1}{\text{Adjustment Factor}} \times Y$$

Where:

$$\text{Adjustment Factor} = \frac{S - OD}{S - OD - CD}$$

E: Existing Entitlement immediately prior to the relevant Cash Distribution

X: Existing Strike Price immediately prior to the relevant Cash Distribution

Y: Existing Call Price immediately prior to the relevant Cash Distribution

S: The closing price of a Unit, as derived from the daily quotation sheet of the Stock Exchange on the Business Day immediately prior to the Dividend Adjustment Date

OD: Amount of ordinary cash dividend per Unit (applicable only if the day on which trading in the Units becomes ex-entitlement in respect of the ordinary cash dividend is the same as the Dividend Adjustment Date)

CD: Amount of the relevant Cash Distribution per Unit

- (F) Without prejudice to and notwithstanding any prior adjustment(s) made pursuant to the applicable terms and conditions, the Issuer may (but shall not be obliged to) make such other adjustments to the terms and conditions of the CBBCs as appropriate where any event (including the events as contemplated in the applicable terms and conditions) occurs and irrespective of, in substitution for, or in addition to the provisions contemplated in applicable terms and conditions, provided that such adjustment is: (a) not materially prejudicial to the interests of the Holders generally (without considering the

circumstances of any individual Holder or the tax or other consequences of such adjustment in any particular jurisdiction); or (b) determined by the Issuer in good faith to be appropriate and commercially reasonable.

- (G) The Issuer shall determine any adjustment or amendment and its determination shall be conclusive and binding on the Holders save in the case of manifest error. Any such adjustment or amendment shall be set out in a notice, which shall be given to the Holders in accordance with Condition 9 as soon as practicable after the determination thereof.

6 Purchase by the Issuer

The Issuer and any of its affiliates may purchase CBBCs at any time on or after the date of their issue and any CBBCs which are so purchased may be surrendered for cancellation or offered from time to time in one or more transactions in the over-the-counter market or otherwise at prevailing market prices or in negotiated transactions, at the sole and absolute discretion of the Issuer or any such affiliate, as the case may be.

7 Global Certificate

A global certificate (the “**Global Certificate**”) representing the CBBCs will be deposited within CCASS and registered in the name of HKSCC Nominees Limited (or its successor) or another nominee of Hong Kong Securities Clearing Company Limited. The Global Certificate will not be exchangeable for definitive certificates.

8 Meeting of Holders; Modification

- (A) *Meetings of Holders.* Notices for convening meetings to consider any matter affecting the Holders’ interests will be given to the Holders in accordance with the provisions of Condition 9.

Every question submitted to a meeting of the Holders shall be decided by poll. A meeting may be convened by the Issuer or by the Holders holding not less than 10 per cent. of the CBBCs for the time being remaining unexercised. The quorum at any such meeting for passing an Extraordinary Resolution will be two or more persons (including any nominee appointed by the Holders) holding or representing not less than 25 per cent. of the CBBCs for the time being remaining unexercised, or at any adjourned meeting two or more persons (including any nominee appointed by the Holders) being or representing Holders whatever the number of CBBCs so held or represented.

“**Extraordinary Resolution**” means a resolution passed at a duly convened meeting by not less than three-quarters of the votes cast by such Holders as, being entitled to do so, vote in person or by proxy.

An Extraordinary Resolution passed at any meeting of the Holders shall be binding on all the Holders, whether or not they are present at the meeting.

Resolutions can be passed in writing without a meeting of the Holders being held if passed unanimously.

Where the Holder is a clearing house recognised by the laws of Hong Kong or its nominee(s), it may authorise such person or person(s) as it thinks fit to act as its representative(s) or proxy(ies) at any Holders’ meeting provided that, if more than one person is so authorised, the authorisation or proxy form must specify the number of CBBCs in respect of which each such person is so authorised. Each person so authorised

will be entitled to exercise the same powers and right, including the right to vote on a show of hands, on behalf of the recognised clearing house or its nominee(s) as that clearing house or its nominee(s) as if he was an individual Holder.

- (B) *Modification.* The Issuer may, without the consent of the Holders, effect any modification of the terms and conditions of the CBBCs or the Instrument which, in the opinion of the Issuer, is (i) not materially prejudicial to the interests of the Holders generally (without considering the circumstances of any individual Holder or the tax or other consequences of such modification in any particular jurisdiction); (ii) of a formal, minor or technical nature; (iii) made to correct a manifest error; or (iv) necessary in order to comply with mandatory provisions of the laws or regulations of Hong Kong. Any such modification shall be binding on the Holders and shall be notified to them by the Issuer as soon as practicable thereafter in accordance with Condition 9.

9 Notices

All notices in English and Chinese to the Holders will be validly given if published on the website of the Hong Kong Exchanges and Clearing Limited. In such circumstances, the Issuer shall not be required to dispatch copies of the notice to the Holders.

10 Termination or Liquidation of Fund or Trust

In the event of a Termination or the liquidation or dissolution of the trustee of the Fund or Trust (including any successor trustee appointed from time to time) (“**Trustee**”) (in its capacity as trustee of the Fund or Trust) or the appointment of a liquidator, receiver or administrator or analogous person under applicable law in respect of the whole or substantially the whole of the Trustee’s undertaking, property or assets, all unexercised CBBCs will lapse and shall cease to be valid for any purpose. The unexercised CBBCs will lapse and shall cease to be valid (i) in the case of a Termination, on the effective date of the Termination; (ii) in the case of a voluntary liquidation, on the effective date of the resolution; (iii) in the case of an involuntary liquidation or dissolution, on the date of the relevant court order; or (iv) in the case of the appointment of a liquidator or receiver or administrator or analogous person under applicable law in respect of the whole or substantially the whole of the Trustee’s undertaking, property or assets, on the date when such appointment is effective but subject (in any such case) to any contrary mandatory requirement of law.

For the purpose of this Condition 10, “**Termination**” means (i) the Fund or Trust is terminated, or the Trustee or the manager of the Fund or Trust (including any successor manager appointed from time to time) (“**Manager**”) is required to terminate the Fund or Trust under the trust deed (“**Trust Deed**”) constituting the Fund or Trust or applicable law, or the termination of the Fund or Trust commences; (ii) the Fund or Trust is held or is conceded by the Trustee or the Manager not to have been constituted or to have been imperfectly constituted; (iii) the Trustee ceases to be authorised under the Fund or Trust to hold the property of the Fund or Trust in its name and perform its obligations under the Trust Deed; or (iv) the Fund or Trust ceases to be authorised as an authorised collective investment scheme under the Securities and Futures Ordinance (Cap. 571 of the Laws of Hong Kong).

11 Delisting of Fund or Trust

- (A) If at any time the Units cease to be listed on the Stock Exchange, the Issuer shall give effect to these terms and conditions in such manner and make such adjustments to the rights attaching to the CBBCs as it shall, in its sole and absolute discretion, consider appropriate to ensure, so far as it is reasonably able to do so, that the interests of the

Holders generally are not materially prejudiced as a consequence of such delisting (without considering the individual circumstances of the Holders or the tax or other consequences that may result in any particular jurisdiction).

- (B) Without prejudice to the generality of Condition 11(A), where the Units are or, upon the delisting, become, listed on any other stock exchange, these terms and conditions may, in the sole and absolute discretion of the Issuer, be amended to the extent necessary to allow for the substitution of that other stock exchange in place of the Stock Exchange and the Issuer may, without the consent of the Holders, make such adjustments to the entitlements of the Holders on exercise or upon the occurrence of a Mandatory Call Event (including, if appropriate, by converting foreign currency amounts at prevailing market rates into amounts in the relevant currency) as it shall consider appropriate in the circumstances.
- (C) Any adjustment, amendment or determination made by the Issuer pursuant to this Condition 11 shall be conclusive and binding on the Holders save in the case of manifest error. Notice of any adjustments or amendments shall be given to the Holders in accordance with Condition 9 as soon as practicable after they are determined.

12 Further Issues

The Issuer shall be at liberty from time to time, without the consent of the Holders, to create and issue further callable bull/bear contracts, upon such terms as to issue price and otherwise as the Issuer may determine so as to form a single series with the CBBCs.

13 Illegality or Impracticability

The Issuer is entitled to terminate the CBBCs if it determines in good faith and in a commercially reasonable manner that, for reasons beyond its control, it has become or it will become illegal or impracticable:

- (a) for it to perform its obligations under the CBBCs, in whole or in part as a result of:
 - (i) the adoption of, or any change in, any relevant law or regulation (including any tax law); or
 - (ii) the promulgation of, or any change in, the interpretation by any court, tribunal, governmental, administrative, legislative, regulatory or judicial authority or power with competent jurisdiction of any relevant law or regulation (including any tax law),(each of (i) and (ii), a “**Change in Law Event**”); or
- (b) for it or any of its affiliates to maintain the Issuer’s hedging arrangements with respect to the CBBCs due to a Change in Law Event.

Upon the occurrence of a Change in Law Event, the Issuer will, if and to the extent permitted by the applicable law or regulation, pay to each Holder a cash amount that the Issuer determines in good faith and in a commercially reasonable manner to be the fair market value in respect of each CBBC held by such Holder immediately prior to such termination (ignoring such illegality or impracticability) less the cost to the Issuer of unwinding any related hedging arrangement as determined by the Issuer in its sole and absolute discretion. Payment will be made in such manner as shall be notified to the Holders in accordance with Condition 9.

14 Good Faith and Commercially Reasonable Manner

Any exercise of discretion by the Issuer under these terms and conditions will be made in good faith and in a commercially reasonable manner.

15 Governing Law

The CBBCs and the Instrument will be governed by and construed in accordance with the laws of the Hong Kong Special Administrative Region of the People's Republic of China ("**Hong Kong**"). The Issuer and the Holder (by its acquisition of the CBBCs) shall be deemed to have submitted for all purposes in connection with the CBBCs and the Instrument to the non-exclusive jurisdiction of the courts of Hong Kong.

16 Language

In the event of any inconsistency between the English version and Chinese translation of these terms and conditions, the English version shall govern and prevail.

Sponsor

Standard Chartered Bank (Hong Kong) Limited
32/F, 4-4A Des Voeux Road Central
Hong Kong

ANNEX 3

PURCHASE AND SALE

General

No action has been or will be taken by the Issuer that would permit a public offering (other than Hong Kong) of any series of structured products or possession or distribution of any offering material in relation to any structured products in any jurisdiction where action for that purpose is required. No offers, sales, re-sales, transfers or deliveries of any structured products, or distribution of any offering material relating to structured products, may be made in or from any jurisdiction except in circumstances which will result in compliance with any applicable laws and regulations and will not impose any obligations on the Issuer.

The offer and sale of structured products will also be subject to such other restrictions and requirements as may be set out in the relevant supplemental listing document.

Persons interested in acquiring structured products should inform themselves and obtain appropriate professional advice as to (i) the legal requirements within the countries of their nationality, residence, ordinary residence or domicile for such acquisition; (ii) any foreign exchange restrictions or exchange control requirements which they might encounter on the acquisition of structured products or their redemption; or (iii) the acquisition, holding or disposal of structured products.

United States of America

The structured products have not been, and will not be, registered under the Securities Act. Structured products, or interests therein, may not at any time be offered, sold, resold or delivered, directly or indirectly, in the United States or to, or for the account or benefit of, any U.S. person or to others for offering, sale or resale in the United States or to any such U.S. person. Offers and sales of structured products, or interests therein, in the United States or to U.S. persons would constitute a violation of United States securities laws unless made in compliance with the registration requirements of the Securities Act or pursuant to an exemption therefrom. The structured products will not be offered, sold or delivered within the United States or to U.S. persons. As used herein, “**United States**” means the United States of America (including the States and the District of Columbia), its territories, its possessions and other areas subject to its jurisdiction; and “**U.S. person**” means any national or resident of the United States, including any corporation, partnership or other entity created or organised in or under the laws of the United States or of any political subdivision thereof, any estate or trust the income of which is subject to United States income taxation regardless of its source, and any other U.S. person as such term is defined in Regulation S under the Securities Act.

European Economic Area

In relation to each Member State of the European Economic Area which has implemented the Prospectus Directive (each, a “**Relevant Member State**”), with effect from and including the date on which the Prospectus Directive is implemented in that Relevant Member State (the “**Relevant Implementation Date**”) no offer of structured products which are the subject of the offering contemplated by this base listing document as completed by the relevant supplemental listing

document in relation thereto to the public in that Relevant Member State has been, or will be, made except with effect from and including the Relevant Implementation Date, an offer of structured products to the public in that Relevant Member State may be made:

- (a) if the relevant supplemental listing document in relation to the structured products specifies that an offer of those structured products may be made other than pursuant to Article 3(2) of the Prospectus Directive in that Relevant Member State (a “**Non-exempt Offer**”), following the date of publication of a prospectus in relation to such structured products which has been approved by the competent authority in that Relevant Member State or, where appropriate, approved in another Relevant Member State and notified to the competent authority in that Relevant Member State, provided that any such prospectus has subsequently been completed by the relevant supplemental listing documents contemplating such Non-exempt Offer, in accordance with the Prospectus Directive, in the period beginning and ending on the dates specified in such prospectus or supplemental listing document, as applicable and the Issuer has consented in writing to its use for the purpose of that Non-exempt Offer;
- (b) at any time to any legal entity which is a qualified investor as defined in the Prospectus Directive;
- (c) at any time to fewer than 100 or, if the Relevant Member State has implemented the relevant provisions of the 2010 PD Amending Directive, 150 natural or legal persons (other than qualified investors as defined in the Prospectus Directive) subject to obtaining the prior consent of the Issuer; or
- (d) at any time in any other circumstances falling within Article 3(2) of the Prospectus Directive,

provided that no such offer of structured products referred to in (b) to (d) above shall require the Issuer or any dealer to publish a prospectus pursuant to Article 3 of the Prospectus Directive or supplement a prospectus pursuant to Article 16 of the Prospectus Directive.

For the purposes of this provision, the expression an “**offer of structured products to the public**” in relation to any structured products in any Relevant Member State means the communication in any form and by any means of sufficient information on the terms of the offer and the structured products to be offered so as to enable an investor to decide to purchase or subscribe the structured products, as the same may be varied in that Member State by any measure implementing the Prospectus Directive in that Member State and the expression “**Prospectus Directive**” means Directive 2003/71/EC (and amendments thereto, including the 2010 PD Amending Directive, to the extent implemented in the Relevant Member State), and includes any relevant implementing measure in the Relevant Member State and the expression “**2010 PD Amending Directive**” means Directive 2010/73/EU.

United Kingdom

The Issuer represents, warrants and agrees that:

- (a) in relation to any structured products which have an expiry of less than one year, (i) it is a person whose ordinary activities involve it in acquiring, holding, managing or disposing of investments (as principal or agent) for the purposes of its business and (ii) it has not offered or sold and will not offer or sell any structured products other than to persons whose ordinary activities involve them in acquiring, holding, managing or disposing of investments (as principal or as agent) for the purposes of their businesses or who it is

reasonable to expect will acquire, hold, manage or dispose of investments (as principal or agent) for the purposes of their businesses where the issue of the structured products would otherwise constitute a contravention of Section 19 of the FSMA by the Issuer;

- (b) it has only communicated or caused to be communicated and will only communicate or cause to be communicated an invitation or inducement to engage in investment activity (within the meaning of Section 21 of the FSMA) received by it in connection with the issue or sale of any structured products in circumstances in which Section 21(1) of the FSMA does not or where applicable would not, if the Issuer was not an authorised person, apply to the Issuer; and
- (c) it has complied and will comply with all applicable provisions of the FSMA with respect to anything done by it in relation to any structured products in, from or otherwise involving the United Kingdom.

ANNEX 4

FINANCIAL INFORMATION RELATING TO SCB

The information in this Annex 4 has been extracted from the Standard Chartered Bank Directors' Report and Financial Statements 31 December 2012. The page numbers of such document appear on the bottom of the pages in this Annex. Page references within the Standard Chartered Bank Directors' Report and Financial Statements 31 December 2012 are to the page numbers within such document.

Standard Chartered Bank
Reference Number ZC18
Directors' Report and Financial Statements
31 December 2012



Incorporated in England with limited liability by Royal Charter 1853
Principal Office: 1 Aldermanbury Square, London, EC2V 7SB, England

Standard Chartered Bank

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Standard Chartered Bank

Financial Review

Group summary

The Group has delivered a tenth consecutive year of income and profit growth, as we remain disciplined in the execution of our strategy, with growth underpinned by the diversity of our business across clients and customers, products and geographies.

Operating income increased by \$1,312 million, or 7 per cent, to \$18,993 million. Profit before tax increased by \$17million to \$6,786 million. Excluding the impact of the settlements of \$667 million with the US authorities, profit before tax increased 10 per cent.

Consumer Banking (CB) income increased 6 per cent to \$7,202 million and operating profit grew 8 per cent to \$1,775 million. Both 2012 and 2011 were impacted by a number of non-recurring items in income and expenditure which are explained further on page 7. Adjusting for these items, CB income increased 5 per cent, in line with the growth in expenses as we accelerated investment in the franchise, while CB operating profit fell 1 per cent.

Wholesale Banking (WB) income increased 8 per cent to \$11,791 million and operating profit fell 2 per cent to \$5,139 million. Excluding the impact of the settlements with the US authorities, WB operating profit rose 11 per cent.

Corporate items, which are not allocated to the businesses and include the UK bank levy, generated a loss of \$128 million in the current year. These items are explained further in note 2 on page 108.

The normalised cost to income ratio, which excludes among others the impact of the settlements with the US authorities, decreased to 53.8 per cent from 56.5 per cent in 2011. The Group continues to manage expenses tightly and have delivered cost growth below the level of income growth, creating capacity to invest in both businesses.

The quality of the Group's asset book remains good. 72 per cent of the CB book is fully secured and we have continued to selectively grow the unsecured portfolio. Consequently, this has led to an increase in impairment in CB with some pockets of localised pressure. WB loans remain well diversified and largely short tenor, with 62 per cent having a residual maturity of less than one year. WB loan impairment increased although this was due to a very small number of problem accounts. Overall, we continue to have a proactive approach to risk management and remain watchful.

The Group's balance sheet remains resilient, well diversified and conservatively positioned, with limited exposure to problem asset classes. The Group's direct sovereign exposure to the eurozone remains immaterial (see page 60 for further details).

The Group remains highly liquid and we experienced strong deposit growth across both businesses, in particular in the Hong Kong, Singapore and Americas, UK & Europe regions. This further improved the advances-to-deposits ratio to 74.1 per cent from 76.6 per cent in 2011. Our funding profile remains conservative and we continue to be a net lender into the interbank market. We saw continued good appetite for our paper, successfully issuing €2 billion in the last quarter of 2012, and have limited refinancing requirements over the next few years. We have substantially pre-funded our repayment obligations for 2013.

We remain focused on the basics of banking, funding before lending, and on the disciplined execution of our strategy. We continue to be well positioned not only for the significant opportunities that we see across our footprint in Asia, Africa and the Middle East but also for our ability to act as a bridge connecting these markets with the West.

Operating income and profit

	2012	2011	%
	\$million	\$million	
Net interest income	11,005	10,166	8
Fees and commissions income, net	4,117	4,043	2
Net trading income	2,769	2,679	3
Other operating income	1,102	793	39
Non-interest income	7,988	7,515	6
Operating income	18,993	17,681	7
Operating expenses	(10,908)	(9,967)	9
Operating profit before impairment losses and taxation	8,085	7,714	5
Impairment losses on loans and advances and other credit risk provisions	(1,221)	(908)	34
Other impairment	(194)	(111)	75
Profit from associates	116	74	57
Profit before taxation	6,786	6,769	-

Group performance

Operating income grew by \$1,312 million, or 7 per cent, to \$18,993 million. The Group's income streams continue to be well diversified and all geographic segments delivered positive income growth, except India which was impacted by depreciation of the Indian rupee against the US dollar.

CB income was 6 per cent higher at \$7,202 million, with double digit growth in Other Asia Pacific, Africa and Americas, UK & Europe. Strong growth in Cards, Personal Loans and Unsecured Lending (CCPL), which increased 12 per cent, and Deposits income, up 11 per cent, offset lower Mortgages and Auto Finance (Mortgages) income, which fell 6 per cent as volume growth and margins remained under pressure. Although Wealth Management income was flat, we continued to grow our income mix in products that have a lower correlation to equity markets, such as bancassurance and fixed income.

WB income was 8 per cent higher, at \$11,791 million, reflecting well diversified with income streams, with client income up by 8 per cent and own account income growing by 12 per cent. This was underpinned by good growth in Trade Finance, up 22 per cent, and Corporate Finance, growing 19 per cent, which offset lower Foreign Exchange (FX) and Commodities income. Principal Finance also benefitted from an improvement in equity market conditions.

Standard Chartered Bank

Financial Review

Net interest income increased by \$839 million, or 8 per cent. In CB, net interest income grew \$292 million, or 6 per cent, to \$4,922 million. We continue to experience regulatory headwinds in a number of markets and increasing competitive pressures driving asset margin compression and impacting volumes, particularly in Mortgages. This has been offset by good volume growth in CCPL and higher Current Accounts and Savings Accounts (CASA) balances coupled with widening liability margins. WB net interest income increased \$547 million, or 10 per cent, benefitting from higher Trade and Cash average balances and improved Trade margins, which offset slightly lower lending margins.

Non-interest income, which comprises net fees and commissions, trading and other operating income, increased by \$473 million to \$7,988 million.

Net fees and commissions income increased by \$74 million, or 2 per cent, to \$4,117 million. Fee income in CB grew as we increased our participation in the Mortgage Purchase Program (MPP) in Korea (details of which are set out on page 8) and from higher sales of bancassurance products. WB fees were flat primarily due to a lower number of large value transactions within Corporate Finance.

Net trading income increased \$90 million, or 3 per cent, to \$2,769 million, as growth in Rates offset by lower Foreign Exchange (FX) and Commodities income.

Other operating income, which primarily comprises gains arising on sale from the investment securities portfolio, aircraft and shipping lease income, fixed asset realisations and dividend income, increased \$309 million, or 39 per cent, to \$1,102 million. Higher operating lease rental income, increased realisations out of the available-for-sale securities portfolio, a gain on the repurchase of subordinated debt of \$90 million, and a \$74 million gain on a property sale in Korea contributed to the increase.

Operating expenses increased \$941 million, or 9 per cent, to \$10,908 million. Operating expenses in 2012 were impacted by \$667 million relating to the settlements with the US authorities and \$86 million relating to a legacy commercial legal provision, while 2011 expenses included recoveries of \$96 million on structured notes in Other Asia Pacific region and a \$206 million charge in staff costs relating to the Early Retirement Programme (ERP) in Korea. Excluding these items for both 2011 and 2012, operating expenses increased by 3 per cent year on year. Although we continue to manage expenses tightly, we have sustained investment in both businesses with spend on branches, including renovations and relocations, and increased investment in mobile and online technology in CB and investment in Transaction Banking in WB. Staff costs (excluding the impact of the ERP charge in 2011) increased by 2 per cent as an increase in employee numbers across both businesses was partly offset by lower variable compensation and ongoing efficiency initiatives.

Pre-provision profit was higher by \$371 million, or 5 per cent, at \$8,085 million.

Loan impairment increased by \$313 million, or 34 per cent, to \$1,221 million. Impairment in CB, which has a largely secured loan book, increased by \$173 million, driven primarily by the expected seasoning impact of the growth in the unsecured loan book coupled with pockets of localised stress. WB impairment increased by \$140 million and related to a small number of large exposures in India and UAE. Asset quality across both businesses remains good, although we have prudently increased the number of WB clients we are monitoring more closely reflecting continuing economic uncertainties.

Other impairment charges were higher at \$194 million, up from \$111 million in 2011 reflecting write-downs of certain Private Equity and associate investments. Profits from associate investments grew 57 per cent, reflecting a strong performance from China Bohai Bank.

Operating profit was up \$17 million to \$6,786 million. CB profit was 8 per cent higher. WB profit was 2 per cent lower. Hong Kong remained our largest profit generator, growing operating profit by 7 per cent, and profit in Africa grew strongly, up 23 per cent. This helped offset lower profits across a number of other geographies, with Americas, UK & Europe in particular impacted by the settlements with the US authorities.

The Group's effective tax rate (ETR) was 27.4 per cent, slightly up from 27.3 per cent in 2011, primarily due to change in profit mix offset by an increase in non-deductible expenses.

Standard Chartered Bank

Financial Review continued

Balance Sheet

	2012	2011	Increase/ (decrease)	Increase/ (decrease)
	\$million	\$million	\$million	%
Assets				
Advances and investments				
Cash and balances at central banks	61,043	47,364	13,679	29
Loans and advances to banks	68,380	65,980	2,400	4
Loans and advances to customers	283,885	266,790	17,095	6
Investment securities held at amortised cost	3,851	5,493	(1,642)	(30)
	417,159	385,627	31,532	8
Assets held at fair value				
Investment securities held available-for-sale	95,562	79,790	15,772	20
Financial assets held at fair value through profit or loss	27,084	24,828	2,256	9
Derivative financial instruments	49,496	58,567	(9,071)	(15)
	172,142	163,185	8,957	5
Other assets	46,785	43,439	3,346	8
Total assets	636,086	592,251	43,835	7
Liabilities				
Deposits and debt securities in issue				
Deposits by banks	36,477	35,296	1,181	3
Customer accounts	377,639	345,726	31,913	9
Debt securities in issue	41,445	35,766	5,679	16
	455,561	416,788	38,773	9
Liabilities held at fair value				
Financial liabilities held at fair value through profit or loss	23,064	19,599	3,465	18
Derivative financial instruments	48,194	57,118	(8,924)	(16)
	71,258	76,717	(5,459)	(7)
Subordinated liabilities and other borrowed funds	23,084	19,462	3,622	19
Other liabilities	46,303	43,834	2,469	6
Total liabilities	596,206	556,801	39,405	7
Equity	39,880	35,450	4,430	12
Total liabilities and shareholders' funds	636,086	592,251	43,835	7

Balance sheet

The Group continued to be disciplined in its focus on sustaining a strong balance sheet, which remains highly liquid, diversified and conservatively positioned. Growth across both businesses has been robust on both sides of the balance sheet and we continued to focus on the principle of 'funding before lending'. The Group is predominately deposit funded and our advances to deposits ratio continues to be low at 74.1 per cent, improving from 76.6 per cent in 2011. We continue to be a net lender into the interbank market, particularly in Hong Kong, Singapore, Other Asia Pacific and, Americas, UK & Europe. We continue to see good demand for our paper and our funding structure remains conservative, with limited levels of refinancing required over the next few years.

The profile of our balance sheet remains stable, with 71 per cent of our financial assets held on amortised cost basis, which reduces the risk of short term distress shocks, and 56 per cent of total assets have a residual maturity of less than one year. The Group has low exposure to problem asset classes, no direct sovereign exposure (as defined by the European Banking Authority (EBA)) to Greece, Ireland, Italy, Portugal and Spain and immaterial direct exposure to the remainder of the eurozone. Further details of our exposures to the eurozone are set out on page 60.

Total assets grew by \$43.8 billion, or 7 per cent, during the year. Balance sheet growth was largely driven by an increase in customer lending on the back of significant growth in customer deposits. Surplus liquidity was held with central banks or in liquid investment securities that meet the more stringent regulatory liquidity requirements. Derivative mark to market decreased, largely reflecting lower levels of market volatility.

Cash and balances at central banks

Cash balances increased by \$13.7 billion, or 29 per cent, compared to 2011. In addition to higher surplus liquidity, balances at central banks have also grown as a result of higher clearing balances together with increased requirements to meet regulatory liquidity ratios in several markets, due to the effect of a higher deposit liability base.

Standard Chartered Bank

Financial Review continued

Loans and advances

Loans and advances to banks and customers, which include those held at fair value, grew by \$19.7 billion, or 6 per cent, to \$358 billion.

Consumer Banking portfolios, which represents 46 per cent of the Group's customer advances at 31 December 2012, grew by \$7.6 billion to \$132.9 billion. Growth was driven by higher unsecured lending (CCPL) which rose \$4.0 billion, generating increases in market share in a number of markets as we continued to selectively grow this portfolio. Mortgages were broadly flat, as regulatory restrictions continue to restrain growth in several markets. While Mortgages grew in the key mortgage markets of Hong Kong and Singapore, this was largely offset by a fall in mortgage balances in Korea. In the Korea market, however, we originated \$5 billion of fixed rate mortgages which were sold to the Korea Housing Finance Corporation under a Mortgage Purchase Programme. We continued to see good growth in SME lending, which increased \$1.9 billion with much of the growth in the Other Asia Pacific region.

The Wholesale Banking portfolio remains well diversified by geography and client segment and the business continues to strengthen and deepen relationships across a broader base. Customer advances grew by \$9.4 billion, or 6 per cent, to \$156.7 billion. Lending increased strongly in Singapore, up 14 per cent, and Americas, UK and Europe, up 12 per cent, driven by the continued ability of these geographies to support cross border business originating across the network. Growth was seen across a broad range of industry sectors, reflecting increased trade activity and continued focus on commerce, manufacturing and mining sectors which make up 57 per cent of the Wholesale Banking customer lending. Loans to banks increased by 4 per cent mainly as a result of growth within China and in Americas, UK and Europe.

Treasury bills, debt and equity securities

Treasury bills, debt and equity securities, including those held at fair value, grew by \$16.2 billion to \$120.7 billion, largely due to more stringent liquidity requirements especially in the UK which have necessitated higher holdings. The maturity profile of our investment book is largely consistent with 2011, with around 49 per cent (2011: 51 per cent) of the book having a residual maturity of less than twelve months.

Derivatives

Unrealised mark to market positions are \$9 billion lower compared to 2011, reflecting a mixture of lower volatility across interest rate, commodity and foreign exchange contracts. Our risk position continues to be balanced, resulting in a corresponding decrease in negative mark to market positions. Of the \$49 billion mark to market positions, \$35 billion is available to offset through master netting agreements.

Deposits

The Group has continued to see good deposit growth in both businesses. Deposits by banks and customers, including those held at fair value, increased by \$36.1 billion, of which the increase in customer accounts was \$35.0 billion. Customer deposit growth was seen across a number of markets with significant increases in deposits seen in Hong Kong, Singapore and within the Americas, UK & Europe region. CASA continues to be the core of the customer deposit base, constituting around 50 per cent of customer deposits. Deposits by banks increased by \$1 billion largely due to higher clearing balances, particularly those held within the Americas.

Debt securities in issue, subordinated liabilities and other borrowed funds

Debt securities in issue, including those held at fair value, grew 16 per cent to \$46.7 billion as we continued see strong demand for our paper. Subordinated debt increased by \$3.6 billion, or 19 per cent, on the back of US dollar denominated issues in the second half of 2012.

Equity

Total shareholders' equity increased by \$4.4 billion to \$39.9 billion due to profit accretion, foreign exchange translation gains and gains on available for sale securities, partly offset by dividends paid to shareholders.

Standard Chartered Bank

Financial Review continued

Consumer Banking

The following tables provide an analysis of operating profit by geography for Consumer Banking:

2012									
	Hong Kong	Singapore	Korea	Other Asia Pacific	India	Middle East & Other S Asia	Africa	Americas UK & Europe	Consumer Banking Total
	\$million	\$million	\$million	\$million	\$million	\$million	\$million	\$million	\$million
Operating income	1,411	975	1,184	1,778	440	749	482	183	7,202
Operating expenses	(772)	(554)	(796)	(1,338)	(318)	(490)	(306)	(152)	(4,726)
Loan impairment	(95)	(62)	(223)	(209)	(27)	(51)	(20)	(10)	(697)
Other impairment	-	-	(1)	-	-	-	-	(3)	(4)
Operating profit	544	359	164	231	95	208	156	18	1,775

2011									
	Hong Kong	Singapore	Korea	Other Asia Pacific	India	Middle East & Other S Asia	Africa	Americas UK & Europe	Consumer Banking Total
	\$million	\$million	\$million	\$million	\$million	\$million	\$million	\$million	\$million
Operating income	1,328	926	1,156	1,617	484	721	422	148	6,802
Operating expenses	(703)	(504)	(1,036)	(1,110)	(353)	(486)	(269)	(166)	(4,627)
Loan impairment	(71)	(29)	(166)	(117)	(32)	(89)	(17)	(3)	(524)
Other impairment	-	-	(5)	-	-	(1)	(6)	-	(12)
Operating profit/(loss)	554	393	(51)	390	99	145	130	(21)	1,639

An analysis of Consumer Banking income by product is set out below:

Operating income by product	2012	2011	2012 vs 2011
	\$million	\$million	Better/(worse) %
CCPL	2,707	2,426	12
Wealth Management	1,275	1,274	-
Deposits	1,566	1,412	11
Mortgages and Auto Finance	1,390	1,480	(6)
Other	264	210	26
Total operating income	7,202	6,802	6

Performance in 2012

Operating income in CB increased \$400 million, or 6 per cent, to \$7,202 million. Income in the current year includes a property gain of \$39 million and a gain of \$13 million on disposal of our Private Banking business in Miami. Excluding these items income increased 5 per cent.

Income in CB remains diverse, with all geographic segments growing income except India, which was impacted by continuing weakness of the Indian rupee against the US dollar.

Net interest income increased by \$292 million, or 6 per cent, to \$4,922 million, largely driven by increased volumes. Asset margins continue to be under pressure, particularly across Mortgages and CCPL, where margins for both fell by 12 basis points (bps) although this was offset by strong volume growth in CCPL as we continue to selectively grow our unsecured business. Mortgage volumes continue to be impacted by increased regulatory pressures in a number of markets and margins have been impacted by high levels of liquidity across our markets, although margins increased in the second half of the year compared to the first half. On the liability side, both CASA and Time Deposits volumes increased with good CASA growth seen in Hong Kong and Korea. The proportion of customer deposits held as CASA remained broadly stable at 58 per cent.

Non-interest income at \$2,296 million was \$80 million, or 4 per cent, higher compared to 2011 and includes the gains relating to a property sale in Korea and the disposal of our Private Banking operations in Miami. Excluding these gains, non-interest income was 2 per cent higher. Wealth Management income from equity-related products continued to be impacted by market uncertainty in light of weaker equity markets although this was offset by growth in bancassurance and fixed income products.

Expenses were up \$99 million, or 2 per cent, to \$4,726 million. Expenses in 2011 included a charge of \$189 million relating to the ERP in Korea, which was partly offset by \$96 million of recoveries on certain structured note payouts made in prior periods. Excluding these items, expenses increased by 4 per cent, reflecting the flow through from investments in staff in 2011 and continuing improvements to branch infrastructure and technology to enhance frontline systems, mobile, remote and internet banking capabilities, including our Breeze mobile platform.

Loan impairment increased by \$173 million, or 33 per cent, to \$697 million. The increase is in line with expectations in light of the portfolio growth and seasoning impact of our unsecured portfolio. It has also been impacted by some localised pockets of stress. The loan charge benefited by \$78 million (2011: \$84 million) from the sale of loan portfolios during the year.

Standard Chartered Bank

Financial Review continued

Operating profit increased by \$136 million, or 8 per cent, to \$1,775 million. Excluding the impact of non-recurring income and expense items, operating profit fell 1 per cent. Although regulatory and competitive headwinds have impacted profit growth in a number of our larger markets, there have been strong increases in a number of our smaller markets, including Indonesia and across the Africa, MESA and Americas, UK & Europe regions.

Product performance

Income from CCPL grew \$281 million, or 12 per cent, to \$2,707 million, with increased volumes more than offsetting continued pressure on margins, which have been impacted by competition across a number of our markets. We continued selectively to grow our unsecured portfolio, particularly in markets with positive credit bureaux and we have increased market share. Volume growth was also supported by increased levels of bundling with existing products.

Wealth Management income was flat at \$1,275 million. While income from equity-related products were impacted by subdued market volumes due to continuing market uncertainty, this was compensated by stronger performance in bancassurance and fixed income products as we focused on building a more diversified product mix.

Deposits income increased by 11 per cent to \$1,566 million. CASA balances grew strongly and margins improved across a number of markets. While Time Deposit balances also saw good volume growth, margins were lower compared to 2011 as competition for liquidity intensified.

Mortgages and Auto Finance income fell by \$88 million, or 6 per cent, to \$1,390 million, as regulatory constraints in a number of markets continued to impact mortgage volumes. Mortgage margins also continue to be compressed due to competitive pressures although we did, however, see some recovery of margins in the second half of 2012, particularly in Hong Kong. The loss of interest income was partly offset by an increase in fees as a result of increased levels of participation in the Korea MPP.

Other income primarily includes SME related trade and other transactional income. It also includes the property and business disposal gains of \$52 million.

Geographic performance

Hong Kong

Income was up \$83 million, or 6 per cent, to \$1,411 million. We saw good volume growth as we gained market share across all major asset and liability products together with an improvement in liability margins, and these more than offset continuing pressure on asset margins. Income from CCPL grew strongly as volume growth cushioned continuing margin compression. While mortgage volumes increased, income was lower than 2011 due to narrower margins, although margins saw an improvement in the latter part of 2012 with a focus on writing new business in higher margin Prime rate based products. Wealth Management income fell as growth in bancassurance and unit trust was largely offset by lower income from premium currency investment and structured products. SME income increased as we continued to drive growth in the trade book. Deposits income increased as margins improved together with strong volume growth in CASA.

Operating expenses were higher by \$69 million, or 10 per cent, primarily due to the flow-through impact from increased front line staff, investments in infrastructure and increased marketing spend.

Pre-provision profit was up \$14 million, or 2 per cent, to \$639 million. Loan impairment was \$24 million higher at \$95 million, reflecting growth in unsecured lending together with a small increase in bankruptcy filings. Operating profit fell \$10 million, or 2 per cent, to \$544 million.

Singapore

Income was up \$49 million, or 5 per cent, to \$975 million. Income growth was led by higher Wealth Management and CCPL income although there has been further compression in asset margins. Wealth Management income rose as we continued to optimise the product mix, with increased income from unit trusts, fixed income and bancassurance products offsetting lower income from equity-linked structured products. CCPL income grew with strong balance sheet momentum, supported by innovative products such as the Security Token Card offsetting lower margins. Retail mortgages income fell as an increase in mortgage balances was offset by margin compression as competition intensified. On the liability side, income growth was flat as volume growth was offset by lower TD margins as the competition for liquidity increased.

Operating expenses increased \$50 million, or 10 per cent, to \$554 million from investment in technology, higher staff costs and increased levels of marketing.

Pre-provision profit was flat at \$421 million. Loan impairment more than doubled to \$62 million, due to higher unsecured volumes and the seasoning of the unsecured portfolio. Operating profit fell by \$34 million, or 9 per cent, at \$359 million.

Korea

Income was up \$28 million, or 2 per cent, to \$1,184 million and included a \$39 million gain on sale of property. Excluding this gain, income was down \$9 million, or 1 per cent. Regulatory headwinds continued to impact mortgage income as margins narrowed and balances reduced further during the year as we continued to reshape the balance sheet. This was partly mitigated by fees earned from the MPP. Under this program, we sold KRW 6 trillion (\$5 billion) of fixed rate mortgages, largely during the second half of the year, to the Korea Housing Finance Corporation. Lower Mortgages income was offset by a higher CCPL income, driven by growth in personal lending volumes as we increased market share together with improved margins, although the pace of growth moderated in the latter part of 2012 as we tightened underwriting standards. Wealth Management income increased reflecting strong bancassurance income. Deposits income fell as strong growth in CASA balances was offset by lower margins, which were impacted by a falling interest rate environment.

Operating expenses fell \$240 million, or 23 per cent, to \$796 million. Excluding the \$189 million charge for the ERP in 2011, expenses were 5 per cent lower as flow through savings from ERP were partially offset by investments in technology and inflation related increases in staff costs.

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Pre-provision profit was higher by \$268 million at \$388 million. Loan impairment was up \$57 million, or 34 per cent, to \$223 million due to growth in unsecured products and a market-wide increase in filings under the Personal Debt Rehabilitation Scheme in the face of a weakening credit environment. As a result of the above factors, the operating loss of \$51 million improved to a profit of \$164 million in the current year.

Other Asia Pacific (Other APR)

Income was up \$161 million, or 10 per cent, to \$1,778 million. All major markets saw positive income momentum. Income in China was up 30 per cent to \$296 million, reflecting strong growth in Deposit and Personal loan volumes, improved mortgage margins and continued growth in SME. This was partially offset by lower Wealth Management income as weaker investor sentiment resulted in lower volumes of structured products. Income in Taiwan increased marginally to \$424 million. Personal loan income grew as a result of widening margins although this was offset by lower income from Mortgages, as balances reduced due to continuing regulatory constraints. Wealth Management income also fell due to lower unit trust volumes but Deposits income increased strongly as CASA margins improved in the second half of 2012. Income in Malaysia increased 10 per cent due to increased income from Personal Loans. Indonesia grew 12 per cent with good growth in Mortgages volumes, secured lending and higher income from CCPL.

Operating expenses were up \$228 million, or 21 per cent, to \$1,338 million. Excluding the benefit of recoveries on payouts made in respect of structured notes in prior years, current year expenses were up \$136 million, or 11 per cent. Expenses in China were up by 20 per cent to \$384 million as we continued to invest in new branch outlets, opening 19 in 2012 to end the year at 100 branches.

Pre-provision profit was down \$67 million, or 13 per cent, to \$440 million. Loan impairment was up by \$92 million, or 79 per cent, to \$209 million, reflecting a lower level of loan portfolio sales in Taiwan and Malaysia and increased levels of provisioning in line with portfolio growth and mix change. Other APR delivered an operating profit of \$231 million, down 41 per cent from 2011, with Taiwan and Malaysia being the most significant contributors to the decline. The operating loss in China increased to \$114 million from \$108 million in 2011 as we continued to invest in the franchise.

India

Income was down \$44 million, or 9 per cent, to \$440 million. During the year, we acquired two portfolios from Barclays in India, the first of which was in February 2012 and the second in December 2012. These portfolios contributed \$10 million to income in the current year. Deposits income increased as a result of higher TD volumes and improved CASA margins. SME income benefitted from higher volumes and improved liability margins.

Operating expenses were \$35 million, or 10 per cent, lower at \$318 million. Pre-provision profit was down \$9 million, or 7 per cent, to \$122 million. Loan impairment was lower by \$5 million, or 16 per cent, at \$27 million as a result of the continued focus on secured lending and an improved portfolio quality. Operating profit was lower by \$4 million, or 4 per cent, at \$95 million.

Middle East and Other South Asia (MESA)

Income was up \$28 million, or 4 per cent, to \$749 million. Income in the UAE increased by 8 per cent with strong growth in CCPL, driven by higher payroll-led lending which offset slightly lower margins. Mortgages income grew in line with portfolio growth and SME revenues increased due to improved trade flows and focused penetration strategies. This was offset by lower Deposits income with muted liability growth and margin compression. Income from Islamic banking grew 30 per cent in the UAE. Income in Pakistan fell 2 per cent reflecting some margin compression following interest rate cuts. Bahrain grew 10 per cent as sentiment improved following the uncertainty caused by the 'Arab Spring' in 2011.

Operating expenses in MESA were higher by \$4 million, or 1 per cent, at \$490 million. While UAE expenses were up 6 per cent, reflecting investments in frontline sales capacity, expenses in most other markets were lower reflecting tight cost discipline across the region.

Pre-provision profit for MESA was up \$24 million, or 10 per cent, to \$259 million. Loan impairment continued to fall and was considerably lower at \$51 million, down 43 per cent compared to 2011. Most of the reduction arose in UAE and Bahrain due to adherence to tighter underwriting criteria in addition to an improvement in a number of market factors, including job market stability. MESA operating profit increased 43 per cent, up \$63 million to \$208 million.

Africa

Income was up \$60 million, or 14 per cent, at \$482 million. Income from unsecured lending, which is predominately payroll-linked, rose as a result of increased volumes as we grew market share although asset margins remain compressed. Deposits income grew strongly as a result of higher balances and improved CASA margins.

Income grew in each of our four largest markets of Kenya, Ghana, Nigeria and Zambia. Kenya continues to be the largest CB income generator in the region and increased income by 27 per cent as volume growth and wider liability margins offset asset margin compression. Income growth in Nigeria, Ghana and Zambia was primarily led by higher liability margins as benchmark rates increased.

Operating expenses were \$37 million, or 14 per cent, higher at \$306 million, as we continued to build out the distribution network, adding 27 new branches, increasing frontline staff and expanding digital distribution channels such as mobile banking.

Pre-provision profit in Africa was higher by \$23 million or 15 per cent, at \$176 million. Loan impairment was up \$3 million to \$20 million. Operating profit was up \$26 million, or 20 per cent, to \$156 million.

Americas, UK & Europe

Income rose \$35 million, or 24 per cent to \$183 million. The business in this region is primarily Private Banking in nature and focuses on delivering our product suite to international customers from across our network. Income growth was driven by higher Mortgages income as volumes increased and margins improved. Unsecured lending was slightly lower due to margin compression. Wealth Management income was impacted by continued market uncertainty across the eurozone. The current year also benefitted from proceeds of \$13 million from the sale of our Private Banking operations in Miami.

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Financial Review continued

Operating expenses fell \$14 million, or 8 per cent, to \$152 million as we continued to tightly manage costs. Impairment was higher by \$7 million to \$10 million. Operating profit increased to \$18 million from a loss of \$21 million in 2011.

Wholesale Banking

The following tables provide an analysis of operating profit by geographic segment for Wholesale Banking:

2012									
	Hong Kong	Singapore	Korea	Other Asia Pacific	India	Middle East & Other S Asia	Africa	Americas UK & Europe	Wholesale Banking Total
	\$million	\$million	\$million	\$million	\$million	\$million	\$million	\$million	\$million
Operating income	1,939	1,230	670	2,184	1,147	1,483	1,112	2,026	11,791
Operating expenses	(803)	(617)	(283)	(1,099)	(435)	(607)	(479)	(1,685)	(6,008)
Loan impairment	(14)	(4)	(26)	(37)	(138)	(265)	(18)	(22)	(524)
Other impairment	(7)	(2)	(7)	(95)	9	(32)	-	14	(120)
Operating profit	1,115	607	354	953	583	579	615	333	5,139

2011									
	Hong Kong	Singapore	Korea	Other Asia Pacific	India	Middle East & Other S Asia	Africa	Americas UK & Europe	Wholesale Banking Total
	\$million	\$million	\$million	\$million	\$million	\$million	\$million	\$million	\$million
Operating income	1,723	1,267	569	1,905	1,326	1,497	963	1,629	10,879
Operating expenses	(694)	(603)	(316)	(967)	(479)	(600)	(450)	(1,066)	(5,175)
Loan impairment	(32)	(19)	(32)	(18)	(80)	(197)	(7)	1	(384)
Other impairment	-	(31)	(8)	31	(60)	(13)	(10)	(8)	(99)
Operating profit	997	614	213	951	707	687	496	556	5,221

Income by product is set out below:

Operating Income by product	2012	2011	2012 vs 2011
	\$million	\$million	Better/(worse) %
Lending and Portfolio Management	892	844	6
Transaction Banking			
Trade	1,942	1,600	21
Cash management and custody	1,733	1,657	5
	3,675	3,257	13
Global Markets ¹			
Financial Markets	3,667	3,699	(1)
Asset and Liability Management ('ALM')	850	924	(8)
Corporate Finance	2,224	1,879	18
Principal Finance	483	276	75
	7,224	6,778	7
Total operating income	11,791	10,879	8

¹ Global Markets comprises the following businesses: Financial Markets (foreign exchange, interest rate and other derivatives, commodities and equities, debt capital markets and syndications); ALM; Corporate Finance (corporate advisory, structured trade finance, structured finance and project and export finance); and Principal Finance (corporate private equity, real estate infrastructure and alternative investments).

Financial Markets operating income by desk	2012	2011	%
	\$million	\$million	
Foreign Exchange	1,283	1,438	(11)
Rates	967	896	8
Commodities and Equities	522	605	(14)
Capital Markets	592	550	8
Credit and Other	303	210	44
Total Financial Markets operating income	3,667	3,699	(1)

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Performance in 2012

WB continued to be disciplined in the execution of its strategy, delivering strong results and a tenth consecutive year of income growth. Operating income grew \$912 million, or 8 per cent, to \$11,791 million and is increasingly diversified, with the Africa region exceeding \$1 billion of income for the first time. Client income, which constitutes over 80 per cent of WB income, increased by 8 per cent compared to 2011 as we continued to strengthen and deepen relationships across a broader client base. Own account income increased 12 per cent.

Net interest income was up \$547 million, or 10 per cent, to \$6,083 million as average balances across Trade and Cash Management (Cash) increased and Trade margins improved. Non-interest income increased by \$393 million, or 7 per cent, to \$5,692 million.

Commercial Banking, which includes Transaction Banking (incorporating Trade and Cash), Lending and flow foreign exchange (FX), continues to be the core of the WB business, contributing over half of client income. Transaction Banking delivered a strong performance, with income up 13 per cent, driven by Trade Finance, where average balances and margins rose over the prior year, and Cash on the back of higher average balances.

Income from Financial Markets (FM) fell marginally by 1 per cent to \$3,667 million, with strong growth in Rates and Credit offset by lower flow FX and Commodities income. ALM income fell by 8 per cent as a result of increased holdings of lower yielding, highly liquid securities to comply with regulatory requirements in the UK. Corporate Finance income grew 18 per cent, supported by continued product and geographic diversity. Income in Principal Finance increased by 75 per cent, primarily reflecting valuation gains.

Operating expenses grew \$833 million, or 16 per cent, to \$6,008 million. Excluding the impact of the \$667 million settlements with the US authorities and a legacy legal provision of \$86 million, expenses increased by 2 per cent, 7 per cent lower than income growth. We maintained strong expense discipline with staff costs held flat through efficiency initiatives and lower levels of variable compensation. The increase in expenses was concentrated in targeted investment in systems and infrastructure to support our Cash and flow FX businesses.

Loan impairment increased by \$140 million to \$524 million, driven by a very small number of exposures in India and the UAE. The portfolio remains predominantly short tenor and credit quality continues to be strong. Other impairment was higher by \$21 million, or 21 per cent, at \$120 million, driven by incremental Private Equity charges, offset by recoveries on disposal of previously impaired investments.

Operating profit fell \$82 million, or 2 per cent, to \$5,139 million. Excluding the impact of the settlements with the US authorities, operating profit increased 11 per cent.

Product performance

Lending and Portfolio Management income grew by \$48 million, or 6 per cent, to \$892 million. We continue to focus on return optimisation, maintaining margins at similar levels to 2011. Income also benefitted from one-off gains on asset sales.

Transaction Banking income was up \$418 million, or 13 per cent, at \$3,675 million. Trade income grew 21 per cent due to higher average asset and contingent balances and improved margins, which were up 10bps, although we saw high levels of liquidity in the second half of 2012 which led to increasing competitive pressure. Cash income increased by 5 per cent, as average balances increased due to targeted liability drives. Cash margins were flat compared to 2011 and started to tighten in the second half of the year driven by excess liquidity in markets.

Global Markets income increased by \$446 million, or 7 per cent, to \$7,224 million. Within Global Markets, the Financial Markets business, which primarily comprises sales and trading of foreign exchange and interest rate products, continued to be the largest contributor to income and has increasingly diverse income streams. FM income fell by \$32 million, or 1 per cent, to \$3,667 million against a backdrop of regulatory tightening, lower volatility and lack of directional trends. Client income, which represents over three-quarters of FM income, was flat against 2011 as good momentum in Rates and Credit was offset by lower FX income. Own account income decreased by 3 per cent. Fixed Income, Currency & Commodities (FICC), which includes FX, Rates, Commodities and Credit, was 3 per cent lower.

FX income fell 11 per cent, driven by tighter spreads. Lower volatility also impacted corporate sentiment driving a greater proportion of volumes from lower spread spot and swap business. In the second half of the year, the business focused on capturing a greater share of corporate flows, resulting in 19 per cent growth in corporate volumes over the first half of 2012.

Rates income grew 8 per cent with client income up 18 per cent underpinned by our strong credit rating and the reach of our network. There were strong performances across our footprint, most notably in Africa, Hong Kong, China, Korea, and the Americas, UK & Europe region.

Commodities and Equities income fell 14 per cent. Client hedging activity declined, due to reduced levels of volatility across most asset classes. Income was also impacted by the non-recurrence of big ticket transactions seen in the previous year. Cash equities income increased despite significant declines in market volumes.

Capital Markets income grew 8 per cent, with a strong performance in debt capital markets as clients favoured funding through capital markets over borrowing. This more than offset lower levels of loan syndications. Credit and other income increased by 44 per cent, reflecting our strong credit rating and improved market conditions.

ALM income was \$74 million, or 8 per cent, lower at \$850 million as a result of increased holdings of highly liquid assets in line with regulatory requirements.

Corporate Finance income rose \$345 million, or 18 per cent, to \$2,224 million. Approximately 60 per cent of Corporate Finance income is reported within net interest income. We saw an 18 per cent increase in new deals compared to 2011 with increased client demand for financing solutions, particularly in Structured Trade Finance. We continued to build increasing levels of product and

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Financial Review continued

geographic diversification within this business, and derived a higher proportion of new deal fee income from small and medium-sized ticket deals compared to prior years.

Principal Finance income increased \$207 million, or 75 per cent, to \$483 million. Improving market conditions drove higher valuations compared to 2011. Although realisation opportunities remain limited, around one third of the gains booked in 2012 are linked to realisations and announced sales.

Geographic performance

Hong Kong

Income was up \$216 million, or 13 per cent, to \$1,939 million. Client income was up 10 per cent as we continued to leverage the opportunities from increasing RMB internationalisation and trade flows between Hong Kong and China. Income from RMB business grew 30 per cent, and generated increased income in Trade, although regulatory changes and margin compression moderated growth in the latter part of 2012. FX income increased reflecting market demand for RMB hedging products although market sentiment impacted growth in the second half of 2012. Cash income increased strongly due to higher average balances and slightly improved margins. Corporate Finance income also continued to grow, and was up strongly compared to 2011 reflecting a full year's contribution from our transport leasing business which we expanded into Hong Kong in the latter part of 2011. Hong Kong continued to leverage the Group's network, enhancing its position as both a hub into and out of China, with inbound revenues from China up 23 per cent compared to 2011.

Operating expenses grew \$109 million, or 16 per cent, to \$803 million. Almost half of the increase relates to depreciation of assets held within our transport leasing business with the balance reflecting flow through impact from 2011 and ongoing investment in frontline technology.

Pre-provision profit was up \$107 million, or 10 per cent, to \$1,136 million. Loan impairment was lower by \$18 million reflecting higher recoveries. Operating profit was up \$118 million, or 12 per cent, at \$1,115 million.

Singapore

Income fell \$37 million, or 3 per cent, to \$1,230 million. The current year consolidated on the strong performance in 2011, with client income increasing by 5 per cent. However, this was more than offset by lower own account income. Transaction Banking grew strongly as a result of higher Cash and Trade average balances and a widening of margins, although margins narrowed in the second half of 2012. FM income fell, due to lower Commodities income reflecting reduced client flow in the current year. This was partially mitigated by increased volumes of smaller transactions, generating a greater degree of diversification in income flows. FX revenues were impacted by reduced corporate volumes reflecting continuing market uncertainty. ALM income fell primarily due to lower reinvestment yields as we continued to grow our portfolio of highly liquid assets to comply with regulatory requirements. Corporate Finance income was impacted by the absence of large ticket transactions in the current year.

Operating expenses were well managed and were slightly higher at \$617 million, with higher staff costs due to the flow through impact of prior year investments being offset by lower variable compensation and operating efficiencies through disciplined cost management.

Pre-provision profit fell \$51 million, or 8 per cent, to \$613 million. Loan impairment was \$15 million lower and credit quality remains good. Other impairment was lower at \$29 million as prior year Principal Finance provisions did not repeat. Operating profit fell by \$7 million to \$607 million.

Korea

Income increased \$101 million, or 18 per cent, to \$670 million and included a \$35 million gain on a property disposal. Excluding this gain, income increased by 12 per cent. Client income fell 6 per cent, as the FM business was impacted by low corporate hedging activity resulting from continuing global market uncertainties. Transaction Banking income grew, led by Trade, which benefitted from asset growth and widening margins. Cash income also increased as higher average balances offset margin compression in the second half of 2012. Lending income fell as average asset balances declined reflecting sluggish demand and increasing competitive pressures. Own account income increased, primarily in the Private Equity portfolio. Income earned on transactions with Korean clients, but delivered across our network markets continued to grow strongly, with double digit growth against 2011.

Operating expenses were lower by \$33 million, or 10 per cent, at \$283 million, reflecting disciplined cost management.

Pre-provision profit was higher by \$134 million, or 53 per cent, at \$387 million. Loan impairment decreased by \$6 million to \$26 million as higher levels of recoveries offset a small increase in new provisions. Operating profit was higher by \$141 million, or 66 per cent, at \$354 million.

Other APR

Income was up \$279 million, or 15 per cent, at \$2,184 million. Income grew in most of the major markets in this region, driven by strong FM flow business. China delivered income growth of 18 per cent to \$703 million. Trade and Lending saw improved margins through active re-pricing, while Capital Markets income grew strongly. Corporate Finance income grew as we provided advisory and financing solutions across a wider range of industries. Client income was moderated by lower margins in Cash, following interest rate cuts, and reduced FM income, with FX impacted by lower RMB volatility and client demand shifting to vanilla flow products. Own account income rose strongly following realignment of the portfolio to higher yields. Income earned on transactions with China clients and delivered across our network markets continued to grow strongly with Hong Kong remaining the main cross-border partner. Income in Taiwan fell marginally to \$143 million. Strong growth in Trade and Cash, reflecting higher margins, and higher FX income, which saw good momentum in RMB derivatives and commodities, was more than offset by lower Capital Markets and Corporate Finance income. Income in Malaysia was up 27 per cent, with good growth in Lending and higher Corporate Finance income. Indonesia also delivered good growth, up 13 per cent due to higher Corporate Finance and Capital Markets revenues.

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Operating expenses in Other APR were up \$132 million, or 14 per cent, to \$1,099 million. The increase in expenses is primarily driven by a legacy commercial legal provision. China operating expenses were up 8 per cent to \$374 million largely due to increased staff costs.

Pre-provision profit in Other APR was higher by 16 per cent at \$1,085 million. Loan impairment increased by \$19 million to \$37 million, \$12 million of which relates to China. Other impairment resulted in a charge of \$95 million. 2011 benefitted from impairment recoveries on disposal of previously impaired Private Equity investments while the 2012 charge was driven by provisions against unrelated Private Equity investments in China. Operating profit was \$2 million higher at \$953 million. China contributed \$272 million of operating profit, with Indonesia and Malaysia as the other major profit contributors in this region.

India

Income fell \$179 million, or 13 per cent, to \$1,147 million. Flow business and Transaction Banking continues to grow well. Cash was up with a strong growth in average balances partially offset by slightly lower margins reflecting a shift in product mix. Trade income also increased as a result of higher average balances against a backdrop of lower export levels and an improvement in margins. On a constant currency basis, FM income fell and Corporate Finance was also lower, as these businesses continued to be impacted by subdued business sentiment. We continued to support our Indian clients' cross-border needs and income booked across our network grew at a strong double digit rate as we continued to leverage the Group's international franchise.

Operating expenses were lower by \$44 million, or 9 per cent, at \$435 million. On a constant currency basis, expenses were higher by 4 per cent, with the flow through impact of prior year investments offset by tight cost management.

Pre-provision profit was down \$135 million, or 16 per cent, at \$712 million. Loan impairment increased by \$58 million to \$138 million primarily due to credit concerns around a single corporate exposure, the impact of which was partially mitigated by a release of the additional portfolio impairment provisions established in 2011 in respect of market uncertainty. Other impairment saw a net recovery of \$9 million compared to a charge of \$60 million in 2011, as the prior year was impacted a charge relating to a specific bond exposure which was partially released in the current year. Operating profit was down \$124 million, or 18 per cent, to \$583 million. On a constant currency basis, operating profit fell 6 per cent.

MESA

Income was lower by \$14 million, at 1 per cent to \$1,483 million. Client income demonstrated resilient performance in a challenging environment with growth driven by Transaction Banking and Corporate Finance. Own account income, however, was impacted by the run-off of higher yielding assets and lower levels of volatility. Income in the UAE, which generates almost 50 per cent of the income in this region, was down 5 per cent overall. While client income increased due to higher Trade and Corporate Finance income this was offset by lower levels of own account income. Islamic banking capabilities continue to be enhanced, with income up compared to 2011. Income in Bangladesh grew 5 per cent driven by Cash. Income in Pakistan fell 10 per cent primarily due to lower levels of ALM income while Bahrain fell 16 per cent as a result of lower Corporate Finance activity.

MESA operating expenses were up \$7 million, or 1 per cent, to \$607 million, as we managed costs tightly across the region.

MESA pre-provision was down \$21 million, or 2 per cent, to \$876 million. Loan impairment increased \$68 million to \$265 million, driven by a small number of accounts in the UAE. Operating profit fell 16 per cent to \$579 million.

Africa

Income exceeded \$1 billion for the first time increasing \$149 million, or 15 per cent, to \$1,112 million. We continue to diversify our revenue engines within this region across products, client groups and countries, with four markets now delivering WB income over \$100 million of income. Income growth was led by a strong Transaction Banking performance, with both Trade and Cash performing well, and higher Corporate Finance income. Nigeria continues to be the largest WB market in the region with income up by 13 per cent, with growth in Rates and Corporate Finance income offsetting lower Lending margins. Income also grew strongly in Ghana, up 28 per cent, Kenya, up 40 per cent, and South Africa, up 22 per cent. Growth in these markets was primarily driven by Transaction Banking reflecting a combination of improved cash margins and higher average balances.

Operating expenses were up \$29 million, or 6 per cent, to \$479 million, reflecting investments to build capability together with inflation related increases.

Pre-provision profit was up \$120 million, or 23 per cent, to \$633 million. Loan impairment remained low at \$18 million, up \$11 million from 2011. Operating profit was \$119 million higher at \$615 million, up 24 per cent.

Americas, UK & Europe

This region acts as a two way bridge, linking Americas, UK & Europe with our markets in Asia, Africa and the Middle East, and leverages capabilities built within the region to support our clients' cross-border needs. Income was up 24 per cent to \$2,026 million, with client income up 27 per cent. Double digit income growth was recorded across our core products of Transaction Banking, FX Rates and Corporate Finance, driving increasingly diversified income streams. Transaction Banking grew strongly, reflecting higher average balances and wider margins in Trade. Corporate Finance income grew with an increase in the volume of medium-sized deals as we deepened global relationships. Own account income increased with a strong performance in Credit from selling Asian credit products to US clients.

Operating expenses were increased by \$619 million, or 58 per cent. Excluding the impact of the settlements with the US authorities, expenses fell by \$48 million, reflecting efficiencies and continued cost discipline across the region.

Pre-provision profit fell \$222 million, or 39 per cent to \$341 million. Loan impairment increased by \$23 million to a charge of \$22 million whilst other impairment fell by \$22 million to a net recovery of \$14 million. Operating profit fell 40 per cent to \$333 million. Excluding the impact of the settlements with the US authorities, operating profit increased 80 per cent compared to 2011.

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Risk review

Principal uncertainties

Risk	Description	Mitigants
Deteriorating macroeconomic conditions in footprint countries	<ul style="list-style-type: none"> Deteriorating macroeconomic conditions can have an impact on our performance via their influence on personal expenditure and consumption patterns; demand for business products and services; the debt service burden of consumers and businesses; the general availability of credit for retail and corporate borrowers; and the availability of capital and liquidity funding for our business. 	<ul style="list-style-type: none"> We balance risk and return taking account of changing conditions through the economic cycle. We monitor economic trends in our markets very closely and continuously review the suitability of our risk policies and controls.
Regulatory changes and compliance	<ul style="list-style-type: none"> The nature and impact of future changes in economic policies, laws and regulations are not predictable and may run counter to our strategic interests. These changes could also affect the volatility and liquidity of financial markets, and more generally the way we conduct business and manage capital and liquidity. <p>Although we seek to comply with all applicable laws and regulations, we may be subject to regulatory actions and investigations across our markets, the outcome of which are generally difficult to predict and could be material to the Group.</p>	<ul style="list-style-type: none"> We review key regulatory developments in order to anticipate changes and their potential impact on our performance. Both unilaterally and through our participation in industry groups we respond to consultation papers and discussions initiated by regulators and governments. The focus of these activities is to develop the framework for a stable and sustainable financial sector and global economy.
Financial markets dislocation	<ul style="list-style-type: none"> Financial markets volatility or a sudden dislocation could affect our performance, through its impact on the mark-to-market valuations of assets in our available-for-sale and trading portfolios or the availability of capital or liquidity. Financial markets instability also increases the likelihood of default by our corporate customers and financial institution counterparties. 	<ul style="list-style-type: none"> We assess carefully the performance of our financial institution counterparties, rate them internally according to their systemic importance, adjusting our exposure accordingly. We maintain robust process to assess the suitability and appropriateness of products and services we provide to our clients and customers.
Geopolitical events	<ul style="list-style-type: none"> We face a risk that geopolitical tensions or conflict in our footprint could impact trade flows, our customers' ability to pay, and our ability to manage capital across borders. 	<ul style="list-style-type: none"> We actively monitor the political situation in all of our principal markets, and conduct regular stress tests of the impact of such events on our portfolios, which inform assessments of risk appetite and any need to take mitigating action.
Risk of fraud	<ul style="list-style-type: none"> The risk of fraud and other criminal activities is growing as criminals become more sophisticated and as they take advantage of the increasing use of technology in society. 	<ul style="list-style-type: none"> We have a broad range of measures in place to monitor and mitigate this risk. Controls are embedded in our policies and procedures across a wide range of the Group's activities, such as origination, recruitment, physical and information security.
Exchange rate movements	<ul style="list-style-type: none"> Changes in exchange rates affect the value of our assets and liabilities denominated in foreign currencies, as well as the earnings reported by our non-US dollar denominated branches and subsidiaries. Sharp currency movements can also impact trade flows and the wealth of clients, both of which could have an impact on our performance. 	<ul style="list-style-type: none"> We actively monitor exchange rate movements and adjust our exposure accordingly. Under certain circumstances, we may take the decision to hedge our foreign exchange exposures in order to protect our capital ratios from the effects of changes in exchange rates.

Standard Chartered Bank

Risk review continued

Financial risk management

The following parts of the Risk Review form part of the audited financial statements: from the start of the "Risk management" section on page 18 to the end of the Liquidity section on page 82, with the exception of the "Asset backed securities."

Risk overview

Standard Chartered has a defined risk appetite, approved by the Board, which is an expression of the amount of risk we are prepared to take and plays a central role in the development of our strategic plans and policies. We also regularly conduct stress tests and monitor concentrations to ensure that we are operating within our approved risk appetite.

We review and adjust our underwriting standards and limits in response to observed and anticipated changes in the external environment and the evolving expectations of our stakeholders. In 2012, we maintained our cautious stance overall whilst continuing to support our core clients.

Our balance sheet and liquidity have remained strong and we already meet the enhanced liquidity thresholds required under forthcoming Basel III regulations.

Our lending portfolio is diversified across a wide range of products, industries and customer segments, which serves to mitigate risk. We operate in 68 markets and there is no single market that accounts for more than 20 per cent of loans and advances to customers, or operating income. Our cross-border asset exposure is diversified and reflects our strategic focus on our core markets and customer segments. Approximately 47 per cent of our loans and advances to customers are of short maturity, and within Wholesale Banking 62 per cent of loans and advances have a tenor of one year or less. In Consumer Banking 72 per cent of assets are secured and the overall loan to value ratio on our mortgage portfolio is less than 48 per cent.

We have low exposure to asset classes and segments outside of our core markets and target customer base. We have no direct sovereign exposure (as defined by the European Banking Authority (EBA)) to Greece, Ireland, Italy, Portugal or Spain. Our total gross exposure to all counterparties in these countries, more than half of which relates to currency and interest rate derivatives, is 0.6 per cent of total assets. Our direct sovereign exposure to the remainder of the eurozone is immaterial. Further details on page 60. Our exposure to countries impacted by the political developments in the Middle East and North Africa are also low. Exposures in Bahrain, Syria, Egypt, Libya, Algeria and Tunisia represent less than 0.5 per cent of our total assets.

Our exposure to commercial real estate and leveraged loans accounts for less than 2 and 1 per cent of our total assets respectively. The notional value of the Asset Back Securities (ABS) portfolio which accounts for 0.7 per cent of our total assets increased by \$2.3 billion in 2012 due to investments in high quality, senior ABS and Residential Mortgage Backed Securities (RMBS) assets in the Group's portfolio of liquid assets. Further details are given on page 59.

Market risk is tightly monitored using Value at Risk (VaR) methodologies complemented by sensitivity measures, gross nominal limits and loss triggers at a detailed portfolio level. This is supplemented with extensive stress testing which takes account of more extreme price movements. Further details on market risk are given on page 67.

Our liquidity in 2012 benefited from continued good inflows of customer deposits, which helped us to maintain a strong advances-to-deposits ratio. Liquidity will continue to be deployed to support growth opportunities in our chosen markets. We manage liquidity in each of our geographical locations, ensuring that we can meet all short-term funding requirements and that our balance sheet remains structurally sound. Our customer deposit base is diversified by type and maturity and we are a net provider of liquidity to the interbank money markets. We have a substantial portfolio of marketable securities which can be realised in the event of liquidity stress. Further details on liquidity are given on page 72.

The Group continued to make detailed submissions to the FSA during 2012 regarding a Group level recovery plan and information to support resolution planning. We continue to engage actively with our regulators, in particular our 'Crisis Management Group' regulators, to develop appropriate and workable responses to the various regulatory requirements which are being developed. It is critical that international regulators work together to develop coordinated approaches for cross border banking groups.

We have a well-established risk governance structure which is set out on page 18 and an experienced senior team. Members of our executive committee (the Court) sit on our principal risk executive committees, which ensure that risk executive oversight is a critical focus for all our directors, while common membership between these committees helps us address the inter-relationships between risk types. Board committees provide additional risk management oversight and challenge.

We continue to build on the Group's culture of risk management discipline. The management of operational risk, in particular, continues to be enhanced across all areas of the Group. We are introducing increased rigour in the process for anticipating a wide variety of operational risks and in our assessments of risks and control effectiveness. Operational risk is covered in more detail on page 81.

Risk performance review

2012 impairment charges were higher in both businesses than the historic lows experienced in 2010 and 2011, driven principally by impairment charges in a very small number of exposures in Wholesale Banking and change in portfolio mix in Consumer Banking.

In Consumer Banking the total loan impairment provisions for 2012 continue to remain low as a percentage of loans and advances. There was an increase in overall impairment in line with portfolio growth and our continued strategic shift towards unsecured products in selected markets, these tend to have both higher impairment rates and higher returns. We have also seen pockets of localised pressure particularly in Korea. We remain disciplined in our approach to risk management and proactive in our collection efforts to minimise account delinquencies. Recoveries continued to benefit from loan sales during this period.

In Wholesale Banking, the increase in provisions was primarily related to a very small number of clients in India and the UAE. While we do not see a broad based deterioration in asset quality, we have increased the number of clients subject to additional precautionary monitoring reflecting our proactive approach to managing risk in an uncertain environment.

Standard Chartered Bank

Risk review continued

Portfolio impairment provisions have been reduced principally because the sector-specific provision held in India is no longer required.

The advances-to-deposits ratio remained strong, strengthening to 74.1 per cent from 76.6 per cent as we experienced good rates of deposit growth in a number of markets. The liquid asset ratio also improved to 30.4 per cent from 27.8 per cent as we increased our investment in highly liquid assets.

Total average VaR in 2012 was 35 per cent higher than 2011. The increase was principally driven by increased holdings of available for sale securities, primarily held as liquidity buffers, as we continued to maintain a highly liquid balance sheet.

Principal uncertainties

We are in the business of taking selected risks to generate shareholder value, and we seek to contain and mitigate these risks to ensure they remain within our risk appetite and are adequately compensated.

The key uncertainties we face in the coming year are set out below. This should not be regarded as a complete and comprehensive statement of all potential risks and uncertainties that we may experience.

Deteriorating macroeconomic conditions in footprint countries

Macroeconomic conditions have an impact on personal expenditure and consumption, demand for business products and services, the debt service burden of consumers and businesses, the general availability of credit for retail and corporate borrowers and the availability of capital and liquidity funding for our business. All these factors may impact our performance.

The world economy is coming out of a difficult period and uncertainty remains. The sovereign crisis in the eurozone continues and, although acute risks have been addressed by ongoing policy initiatives, there is still a need for substantial new structural reform (see additional information on the risk of redenomination on page 60). The US will likely continue to be held back by fiscal challenges unless political compromises are struck, though economic fundamentals are improving.

Our exposure to eurozone sovereign debt is very low. However, we remain alert to the risk of secondary impacts from events in the West on financial institutions, other counterparties and global economic growth.

These uncertainties have brought more subdued economic growth in some of our footprint countries. New governments in Japan, Korea and China are embarking on more expansionary policy paths that should enhance their contribution to world growth, while India is cautiously pursuing new economic reforms that should in time lift its performance back to its long term trend rate.

In the event of an external shock, larger and more domestically driven economies such as India, Indonesia and China are expected to be more resilient than the more open economies such as Singapore, Hong Kong and South Korea.

Inflation and property prices appear to be under control in most of the countries in which we operate. This and other factors equip the authorities in our significant footprint countries with the policy flexibility to support growth.

We balance risk and return taking account of changing conditions through the economic cycle, and monitor economic trends in our markets very closely. We also continuously review the suitability of our risk policies and controls.

Regulatory changes and compliance

Our business as an international bank will continue to be subject to an evolving and complex regulatory framework comprising legislation, regulation and codes of practice, in each of the countries in which we operate. A key uncertainty relates to the way in which governments and regulators adjust laws, regulations and economic policies in response to macroeconomic and other systemic conditions. The nature and impact of such future changes are not predictable and could run counter to our strategic interests. Some are anticipated to have a significant impact such as changes to capital and liquidity regimes, changes to the calculation of risk weighted assets, derivatives reform, remuneration reforms, recovery and resolution plans, banking structural reforms in a number of markets, the UK bank levy and the US Foreign Account Tax Compliance Act. In particular, the outcome of discussions on the European Union's Capital Requirements Directive IV (CRD IV) and Over The Counter (OTC) Derivative reforms across our markets will potentially have a material impact on the Group and its business model. Proposed changes could also adversely affect economic growth, the volatility and liquidity of the financial markets and, consequently, the way we conduct business and manage capital and liquidity. These effects may directly or indirectly impact our financial performance. Despite these concerns, we remain a highly liquid and well capitalised bank.

It is in the wider interest to have a well run financial system, and we are supportive of a tighter regulatory regime which enhances the resilience of the international financial system. The Group will continue to participate in the regulatory debate through responses to consultations and working towards an improved and workable regulatory architecture. We are also encouraging our international regulators to work together to develop coordinated approaches to regulating and resolving cross border banking groups. We support changes to laws, regulations and codes of practice that will improve the overall stability of, and the conduct within the financial system because this provides benefits to our customers, clients and shareholders. However, we also have concerns that certain proposals may not achieve this desired objective and may have unintended consequences, either individually or in terms of aggregate impact.

The Group seeks to comply with all applicable laws and regulations but may be subject to regulatory actions and investigations across our markets, the outcome of which are generally difficult to predict and can be material to the Group. The Group seeks to co-operate with regulators in response to requests for information, inquiries and investigations and takes remedial actions as necessary. Regulators and other agencies in certain markets are conducting investigations or reviews into submissions made to set various market interest rates and other benchmarks. Certain of the Group's branches and subsidiaries were (and are) submitting data to bodies that set such rates and benchmarks.

The Group is participating in regulatory reviews wherever relevant, contributing to industry proposals to strengthen rate setting processes in certain markets and continues to review its practises and processes in the light of such proposals.

Standard Chartered Bank

Risk review continued

During 2012, the Group reached settlements with the US authorities regarding US sanctions compliance in the period 2001 to 2007, involving a Consent Order by the New York Department of Financial Services (NYDFS), a Cease and Desist Order by the Federal Reserve Bank of New York (FRBNY), Deferred Prosecution Agreements with each of the Department of Justice and with the District Attorney of New York and a Settlement Agreement with the Office of Foreign Assets Control. In addition to the civil penalties totalling \$667m, the terms of these settlements include conditions and ongoing obligations such as: reporting requirements; compliance reviews; banking transparency requirements; training measures; audit programmes; disclosure obligations; requirements to co-operate with further information requests and testimony; requirement to compliance with a remediation programme and the appointment of an independent monitor at the direction of NYDFS; and compliance with a separate remediation programme at the direction of the FRBNY.

The Group engaged with all relevant authorities to implement these programmes and to meet the obligations under the settlements, including the monitoring and compliance reviews, responding to further requests for information and inquiries related to its sanctions compliance and identifying further improvements to processes. The Group remains resolute in its commitment to tackling financial crime across its global footprint and complying with all relevant regulations. The Group has made significant enhancements in its global sanctions and anti-money laundering systems and procedures. The Group recognises that, following these settlements, its compliance with sanctions, not just in the US but throughout its footprint, will remain a focus of the relevant authorities.

Financial markets dislocation

There is a risk that a sudden financial market dislocation, perhaps as a result of deterioration of the sovereign debt crisis in the eurozone, could significantly increase general financial market volatility which could affect our performance or the availability of capital or liquidity. These factors may have an impact on the mark-to-market valuations of assets in our available-for-sale and trading portfolios. The potential losses incurred by certain clients holding derivative contracts during periods of financial market volatility could also lead to an increase in disputes and corporate defaults. At the same time, financial market instability could cause some financial institution counterparties to experience tighter liquidity conditions or even fail. There is no certainty that Government action to reduce the systemic risk will be successful and it may have unintended consequences.

We closely monitor the performance of our financial institution counterparties and adjust our exposure to these counterparties as necessary. We maintain robust processes to assess the appropriateness and suitability of products and services we provide to clients and customers to mitigate the risk of disputes.

Geopolitical events

We operate in a large number of markets around the world, and our performance is in part reliant on the openness of cross-border trade and capital flows. We face a risk that geopolitical tensions or conflicts in our footprint could impact trade flows, our customers' ability to pay, and our ability to manage capital or operations across borders.

We actively monitor the political situation in all our principal markets, such as the development of events in the Middle East and territorial disputes in North East Asia. We conduct stress tests of the impact of extreme but plausible geopolitical events on our performance and the potential for such events to jeopardise our ability to operate within our stated risk appetite. Further details on stress testing are given detailed on page 20.

Risk of fraud

The banking industry has long been a target for third parties seeking to defraud, to disrupt legitimate economic activity, or to facilitate other illegal activities. The risk posed by such criminal activity is growing as criminals become more sophisticated and as they take advantage of the increasing use of technology.

We seek to be vigilant to the risk of internal and external crime in our management of people, processes, systems and in our dealings with customers and other stakeholders. We have a broad range of measures in place to monitor and mitigate this risk. Controls are embedded in our policies and procedures across a wide range of the Group's activities, such as origination, recruitment, physical and information security.

Exchange rate movements

Changes in exchange rates affect, among other things, the value of our assets and liabilities denominated in foreign currencies, as well as the earnings reported by our non-US dollar denominated branches and subsidiaries. Sharp currency movements can also impact trade flows and the wealth of clients both of which could have an impact on our performance.

We monitor exchange rate movements closely and adjust our exposures accordingly. Under certain circumstances, we may take the decision to hedge our foreign exchange exposures in order to protect our capital ratios from the effects of changes in exchange rates. The effect of exchange rate movements on the capital adequacy ratio is mitigated to the extent there are proportionate movements in risk weighted assets.

Standard Chartered Bank

Risk review continued

The table below sets out the period end and average currency exchange rates per US dollar for India, Korea, Singapore and Taiwan for the year ending 31 December 2012 and 31 December 2011. These are the markets for which currency exchange movements have had the greatest translation impact on the Group's results in 2012.

	2012	2011
Indian rupee		
Average	53.43	46.63
Period end	54.96	53.03
Korean won		
Average	1,126.23	1,107.84
Period end	1,070.34	1,151.56
Singapore dollar		
Average	1.25	1.26
Period end	1.22	1.30
Taiwan dollar		
Average	29.57	29.43
Period end	29.07	30.28

As a result of our normal business operations, Standard Chartered is exposed to a broader range of risks than those principal uncertainties mentioned above and our approach to managing risk is detailed on the following pages.

Risk management

The management of risk lies at the heart of Standard Chartered's business. One of the main risks we incur arises from extending credit to customers through our trading and lending operations. Beyond credit risk, we are also exposed to a range of other risk types such as country cross-border, market, liquidity, operational, pension, reputational and other risks that are inherent to our strategy, product range and geographical coverage.

Risk management framework

Effective risk management is fundamental to being able to generate profits consistently and sustainably and is thus a central part of the financial and operational management of the Group.

Through our risk management framework we manage enterprise-wide risks, with the objective of maximising risk-adjusted returns while remaining within our risk appetite.

As part of this framework, we use a set of principles that describe the risk management culture we wish to sustain:

- **Balancing risk and return:** risk is taken in support of the requirements of our stakeholders, in line with our strategy and within our risk appetite
- **Responsibility:** it is the responsibility of all employees to ensure that risk-taking is disciplined and focused. We take account of our social responsibilities and our commitments to customers in taking risk to produce a return
- **Accountability:** risk is taken only within agreed authorities and where there is appropriate infrastructure and resource. All risk-taking must be transparent, controlled and reported
- **Anticipation:** We seek to anticipate future risks and ensure awareness of all known risks
- **Competitive advantage:** We seek to achieve competitive advantage through efficient and effective risk management and control.

Risk governance

Ultimate responsibility for setting our risk appetite and for the effective management of risk rests with the Board.

Acting within an authority delegated by the Board, the Board Risk Committee (BRC), whose membership is comprised exclusively of non-executive directors of the Group, has responsibility for oversight and review of prudential risks including but not limited to credit, market, capital, liquidity and operational. It reviews the Group's overall risk appetite and makes recommendations thereon to the Board. Its responsibilities also include reviewing the appropriateness and effectiveness of the Group's risk management systems and controls, considering the implications of material regulatory change proposals, ensuring effective due diligence on material acquisitions and disposals, and monitoring the activities of the Group Risk Committee (GRC) and Group Asset and Liability Committee (GALCO).

The BRC receives regular reports on risk management, including our portfolio trends, policies and standards, stress testing, liquidity and capital adequacy, and is authorised to investigate or seek any information relating to an activity within its terms of reference. The BRC also conducts 'deep dive reviews' on a rolling basis of different sections of consolidated group risk information report.

The Brand and Values Committee (BVC) oversees the brand, culture, values and good reputation of the Group. It ensures that the management of reputational risk is consistent with the risk appetite approved by the Board and with the creation of long term shareholder value.

The role of the Audit Committee is to have oversight and review of financial, audit and internal control issues.

Overall accountability for risk management is held by the Standard Chartered Bank Court (the Court) which comprises the group executive directors and other senior executives of Standard Chartered Bank.

The Court is the highest executive body of the Group and its terms of reference are approved by the Board of Standard Chartered PLC. The Court delegates authority for the management of risk to the GRC and the GALCO.

The GRC is responsible for the management of all risks other than those delegated by the Court to the GALCO. The GRC is responsible for the establishment of, and compliance with, policies relating to credit risk, country cross-border risk, market risk, operational risk, pension risk and reputational risk. The GRC also defines our overall risk management framework.

Standard Chartered Bank

Risk review continued

The GALCO is responsible for the management of capital and the establishment of, and compliance with, policies relating to balance sheet management, including management of our liquidity, capital adequacy and structural foreign exchange and interest rate risk.

Members of the GRC and the GALCO are both drawn from the Court. The GRC is chaired by the Group Chief Risk Officer (GCRO). The GALCO is chaired by the Group Finance Director. Risk limits and risk exposure approval authority frameworks are set by the GRC in respect of credit risk, country cross-border risk, market risk and operational risk. The GALCO sets the approval authority framework in respect of liquidity risk. Risk approval authorities may be exercised by risk committees or authorised individuals.

The committee governance structure ensures that risk-taking authority and risk management policies are cascaded down from the Board through to the appropriate functional, divisional and country-level committees. Information regarding material risk issues and compliance with policies and standards is communicated to the country, business, functional and Group-level committees.

Roles and responsibilities for risk management are defined under a Three Lines of Defence model. Each line of defence describes a specific set of responsibilities for risk management and control.

- First line of defence: All employees are required to ensure the effective management of risks within the scope of their direct organisational responsibilities. Business, function and geographic governance heads are accountable for risk management in their respective businesses and functions, and for countries where they have governance responsibilities.
- Second line of defence: This comprises the Risk Control Owners, supported by their respective control functions. Risk Control Owners are responsible for ensuring that the risks within the scope of their responsibilities remain within appetite. The scope of a Risk Control Owner's responsibilities is defined by a given Risk Type and the risk management processes that relate to that Risk Type. These responsibilities cut across the Group and are not constrained by functional, business and geographic boundaries. The major risk types are described individually in the following sections.
- Third line of defence: The independent assurance provided by the Group Internal Audit (GIA) function. Its role is defined and overseen by the Audit Committee.

The findings from GIA's audits are reported to all relevant management and governance bodies – accountable line managers, relevant oversight function or committee and committees of the Board.

GIA provides independent assurance of the effectiveness of management's control of its own business activities (the first line) and of the processes maintained by the Risk Control Functions (the second line). As a result, GIA provides assurance that the overall system of control effectiveness is working as required within the Risk Management Framework.

The Risk function

The GCRO directly manages a Risk function that is separate from the origination, trading and sales functions of the businesses. The GCRO also chairs the GRC and is a member of the Court.

The role of the Risk function is:

- To maintain the Risk Management Framework, ensuring it remains appropriate to the Group's activities, is effectively communicated and implemented across the Group and for administering related governance and reporting processes
- To uphold the overall integrity of the Group's risk/return decisions, and in particular for ensuring that risks are properly assessed, that risk/return decisions are made transparently on the basis of this proper assessment, and are controlled in accordance with the Group's standards and risk appetite
- To exercise direct Risk Control Ownership for Credit, Market, Country Cross-Border, Short-term Liquidity and Operational risk types.

The Group appoints Chief Risk Officers (CROs) for its two business divisions and principal countries and regions. CROs at all levels of the organisation fulfil the same role as the GCRO, in respect of the business, geography or legal entity for which they are responsible. The roles of CROs are aligned at each level.

The independence of the Risk function is to ensure that the necessary balance in risk/return decisions is not compromised by short-term pressures to generate revenues. This is particularly important given that revenues are recognised from the point of sale while losses arising from risk positions typically manifest themselves over time.

In addition, the Risk function is a centre of excellence that provides specialist capabilities of relevance to risk management processes in the wider organisation.

Risk appetite

We manage our risks to build a sustainable franchise in the interests of all our stakeholders.

Risk appetite is an expression of the amount of risk we are willing to take in pursuit of our strategic objectives, reflecting our capacity to sustain losses and continue to meet our obligations arising from a range of different stress trading conditions.

We define our risk appetite in terms of both volatility of earnings and the maintenance of adequate regulatory capital requirements under stress scenarios. We also define a risk appetite with respect to liquidity risk, operational risk and reputational risk.

Our quantitative risk profile is assessed through a bottom-up analytical approach covering all of our major businesses, countries and products. It is also assessed against a range of exposure concentration thresholds.

The Group's risk appetite statement is approved by the Board and forms the basis for establishing the risk parameters within which the businesses must operate, including policies, concentration limits and business mix.

The Group will not compromise adherence to its risk appetite in order to pursue revenue growth or higher returns.

The GRC and GALCO are responsible for ensuring that our risk profile is managed in compliance with the risk appetite set by the Board.

Standard Chartered Bank

Risk review continued

Stress testing

Stress testing and scenario analysis are used to assess the financial and management capability of Standard Chartered to continue operating effectively under extreme but plausible trading conditions. Such conditions may arise from economic, regulatory, legal, political, environmental and social factors.

Our stress testing framework is designed to:

- Contribute to the setting and monitoring of risk appetite
- Identify key risks to our strategy, financial position, and reputation
- Support the development of mitigating actions and contingency plans
- Ensure effective governance, processes and systems are in place to co-ordinate and integrate stress testing
- Ensure adherence to regulatory requirements.

Our stress testing activity focuses on the potential impact of macroeconomic, geopolitical and physical events on relevant geographies, customer segments and asset classes.

A Stress Testing Committee, led by the Risk function with members drawn from the businesses, Group Finance, Global Research and Group Treasury, aims to ensure that the implications of specific stress scenarios are fully understood allowing informed mitigation actions and construction of contingency plans. The Stress Testing Committee generates and considers pertinent and plausible scenarios that have the potential to adversely affect our business and considers impact across different risk types and countries.

Stress tests are also performed at country and business level.

Credit risk management

Credit risk is the potential for loss due to the failure of a counterparty to meet its obligations to pay the Group in accordance with agreed terms. Credit exposures arise from both the banking and trading books.

Credit risk is managed through a framework that sets out policies and procedures covering the measurement and management of credit risk. There is a clear segregation of duties between transaction originators in the businesses and approvers in the Risk function. All credit exposure limits are approved within a defined credit approval authority framework. The Group manages its credit exposures following the principle of diversification across products, geographies, client and customer segments.

Credit policies

Group-wide credit policies and standards are considered and approved by the GRC, which also oversees the delegation of credit approval and loan impairment provisioning authorities.

Policies and procedures specific to each business are established by authorised risk committees within Wholesale and Consumer Banking. These are consistent with our Group-wide credit policies, but are more detailed and adapted to reflect the different risk environments and portfolio characteristics.

Credit rating and measurement

Risk measurement plays a central role, along with judgment and experience, in informing risk taking and portfolio management decisions. It is a primary area for sustained investment and senior management attention.

Since 1 January 2008, Standard Chartered has used the advanced Internal Ratings Based (IRB) approach under the Basel II regulatory framework to calculate credit risk capital requirements.

For IRB portfolios, a standard alphanumeric credit risk grade (CG) system is used in both Wholesale and Consumer Banking. The grading is based on our internal estimate of probability of default over a one year horizon, with customers or portfolios assessed against a range of quantitative and qualitative factors. The numeric grades run from 1 to 14 and some of the grades are further sub-classified A, B or C. Lower credit grades are indicative of a lower likelihood of default. Credit grades 1A to 12C are assigned to performing customers or accounts, while credit grades 13 and 14 are assigned to non-performing or defaulted customers.

Our credit grades in Wholesale Banking are not intended to replicate external credit grades, and ratings assigned by external ratings agencies are not used in determining our internal credit grades. Nonetheless, as the factors used to grade a borrower may be similar, a borrower rated poorly by an external rating agency is typically assigned a worse internal credit grade.

Advanced IRB models cover a substantial majority of our exposures and are used extensively in assessing risks at a customer and portfolio level, setting strategy and optimising our risk-return decisions.

IRB risk measurement models are approved by the responsible risk committee, on the recommendation of the Group Model Assessment Committee (MAC). The MAC supports risk committees in ensuring risk identification and measurement capabilities are objective and consistent, so that risk control and risk origination decisions are properly informed. Prior to review by the MAC, all IRB models are validated in detail by a model validation team, which is separate from the teams that develop and maintain the models. Models undergo annual periodic review. Reviews are also triggered if the performance of a model deteriorates materially against predetermined thresholds during the ongoing model performance monitoring process.

Standard Chartered Bank

Risk review continued

Credit approval

Major credit exposures to individual counterparties, groups of connected counterparties and portfolios of retail exposures are reviewed and approved by the Group Credit Committee (GCC). The GCC derives its authority from the GRC.

All other credit approval authorities are delegated by the GRC to individuals based both on their judgment and experience and a risk-adjusted scale that takes account of the estimated maximum potential loss from a given customer or portfolio. Credit origination and approval roles are segregated in all but a very few authorised cases. In those very few exceptions where they are not, originators can only approve limited exposures within defined risk parameters.

Credit concentration risk

Credit concentration risk may arise from a single large exposure or from multiple exposures that are closely correlated. This is managed within concentration caps set by counterparty or groups of connected counterparties and having regard for correlation, by country and industry in Wholesale Banking; and by product and country in Consumer Banking. Additional concentration thresholds are set and monitored where appropriate, by tenor profile, collateralisation levels and credit risk profile.

Credit concentrations are monitored by the responsible risk committees in each of the businesses and concentration limits that are material to the Group are reviewed and approved at least annually by the GCC.

Credit monitoring

We regularly monitor credit exposures, portfolio performance, and external trends that may impact risk management outcomes.

Internal risk management reports are presented to risk committees, containing information on key environmental, political and economic trends across major portfolios and countries; portfolio delinquency and loan impairment performance; and IRB portfolio metrics including credit grade migration.

The Wholesale Banking Credit Issues Forum (WBCIF) is a sub-committee of the Wholesale Banking Risk Committee, which in turn is a sub-committee of and derives its authority from the GRC. The WBCIF meets regularly to assess the impact of external events and trends on the Wholesale Banking credit risk portfolio and to define and implement our response in terms of appropriate changes to portfolio shape, portfolio and underwriting standards, risk policy and procedures.

The Consumer Banking Credit Governance Committee (CGC) is a sub-committee of the Consumer Banking Risk Committee (CBRC). Both the CGC and CBRC meet regularly to assess relevant credit matters. This includes market developments with direct credit concerns, credit policy changes, prominent or emerging credit concerns and mitigating actions.

Clients or portfolios are placed on early alert when they display signs of actual or potential weakness. For example, where there is a decline in the client's position within the industry, financial deterioration, a breach of covenants, non-performance of an obligation within the stipulated period, or there are concerns relating to ownership or management.

Such accounts and portfolios are subjected to a dedicated process overseen by Early Alert Committees in countries. Client account plans and credit grades are re-evaluated. In addition, remedial actions are agreed and monitored. Remedial actions include, but are not limited to, exposure reduction, security enhancement, exiting the account or immediate movement of the account into the control of Group Special Assets Management (GSAM), our specialist recovery unit.

In Consumer Banking, portfolio delinquency trends are monitored continuously at a detailed level. Individual customer behaviour is also tracked and is considered for lending decisions. Accounts that are past due are subject to a collections process, managed independently by the Risk function. Charged-off accounts are managed by specialist recovery teams. In some countries, aspects of collections and recovery functions are outsourced.

The small and medium-sized enterprise (SME) business is managed within Consumer Banking in two distinct customer sub-segments: small businesses and medium enterprises, differentiated by the annual turnover of the counterparty. The credit processes are further refined based on exposure at risk. Larger exposures are managed through the Discretionary Lending approach, in line with Wholesale Banking procedures, and smaller exposures are managed through Programmed Lending, in line with Consumer Banking procedures. Discretionary Lending and Private Banking past due accounts are managed by GSAM.

Credit risk mitigation

Potential credit losses from any given account, customer or portfolio are mitigated using a range of tools such as collateral, netting agreements, credit insurance, credit derivatives and other guarantees. The reliance that can be placed on these mitigants is carefully assessed in light of issues such as legal certainty and enforceability, market valuation correlation and counterparty risk of the guarantor.

Where appropriate, credit derivatives are used to reduce credit risks in the portfolio. Due to their potential impact on income volatility, such derivatives are used in a controlled manner with reference to their expected volatility.

Collateral is held to mitigate credit risk exposures and risk mitigation policies determine the eligibility of collateral types.

For Wholesale Banking, these policies set out the clear criteria that must be satisfied if the mitigation is to be considered effective:

- excessive exposure to any particular risk mitigants or counterparties should be avoided. Collateral concentration mitigation standards are maintained at both the portfolio and counterparty level;
- risk mitigants should not be correlated with the underlying assets such that default would coincide with a lowering of the forced sale value of the collateral;
- where there is a currency mismatch, haircuts should be applied to protect against currency fluctuations;
- legal opinions and documentation must be in place; and
- ongoing review and controls exist where there is a maturity mismatch between the collateral and exposure.

Standard Chartered Bank

Risk review continued

For all credit risk mitigants that meet the policy criteria, a clear set of procedures are applied to ensure that the value of the underlying collateral is appropriately recorded and updated regularly.

Collateral types that are eligible for risk mitigation include: cash; residential, commercial and industrial property; fixed assets such as motor vehicles, aircraft, plant and machinery; marketable securities; commodities; bank guarantees; and letters of credit. Standard Chartered also enters into collateralised reverse repurchase agreements.

All eligible collateral accepted by Consumer Banking is covered by a product proposal approved by senior credit officers with the relevant delegated authority. New collateral types have to be vetted through a stringent 'New Business Approval' process and approved by the Consumer Banking Risk Committee.

In order to be recognised as security and for the loan to be classified as secured, all items pledged must be valued and an active secondary resale market must exist for the collateral. Documentation must be held to enable Consumer Banking to realise the asset without the cooperation of the asset owner in the event that this is necessary.

For certain types of lending – typically mortgages, asset financing – the right to take charge over physical assets is significant in terms of determining appropriate pricing and recoverability in the event of default. The requirement for collateral is however not a substitute for the ability to pay, which is the primary consideration for any lending decisions.

Regular valuation of collateral is required in accordance with the Group's risk mitigation policy, which prescribes both the process of valuation and the frequency of valuation for different collateral types. The valuation frequency is driven by the level of price volatility of each type of collateral and the nature of the underlying product or risk exposure. Stress tests are performed on changes in collateral values for key portfolios to assist senior management in managing the risks in those portfolios. Physical collateral is required to be insured at all times and against all risks, with the Group as the loss payee under the insurance policy. Detailed procedures over collateral management must be in place for each business at the country level.

Where appropriate, collateral values are adjusted to reflect current market conditions, the probability of recovery and the period of time to realise the collateral in the event of possession.

Where guarantees or credit derivatives are used as credit risk mitigation the creditworthiness of the guarantor is assessed and established using the credit approval process in addition to that of the obligor or main counterparty. The main types of guarantors include bank guarantees, insurance companies, parent companies, shareholders and export credit agencies.

The Group uses bilateral and multilateral netting to reduce presettlement and settlement counterparty risk. Pre-settlement risk exposures are normally netted using bilateral netting documentation in legally approved jurisdictions. Settlement exposures are generally netted using Delivery versus Payments or Payment versus Payments systems.

Traded products

Credit risk from traded products is managed within the overall credit risk appetite for corporates and financial institutions.

The credit risk exposure from traded products is derived from the positive mark-to-market value of the underlying instruments, and an additional component to cater for potential market movements.

For derivative contracts, we limit our exposure to credit losses in the event of default by entering into master netting agreements with certain counterparties. As required by IAS 32, exposures are only presented net in the financial statement if there is a legal right to offset and the assets/liabilities will be settled simultaneously.

In addition, we enter into Credit Support Annexes (CSAs) with counterparties where collateral is deemed a necessary or desirable mitigant to the exposure. Further details on CSAs are set out on page 23.

Securities

Within Wholesale Banking, the Underwriting Committee approves the portfolio limits and parameters by business unit for the underwriting and purchase of all pre-defined securities assets to be held for sale. The Underwriting Committee is established under the authority of the GRC. Wholesale Banking operates within set limits, which include country, single issuer, holding period and credit grade limits.

Day to day credit risk management activities for traded securities are carried out by Traded Credit Risk Management whose activities include oversight and approval within the levels delegated by the Underwriting Committee. Issuer credit risk, including settlement and pre-settlement risk, is controlled by Wholesale Banking Risk, while price risk is controlled by Group Market Risk.

The Underwriting Committee approves individual proposals to underwrite new security issues for our clients. Where an underwritten security is held for a period longer than the target sell-down period, the final decision on whether to sell the position rests with the Risk function.

Credit portfolio

Maximum exposure to credit risk

The table below presents the Group's maximum exposure to credit risk for its on-balance sheet and off-balance sheet financial instruments at 31 December 2012, before taking into account any collateral held or other credit risk mitigation. For on-balance sheet instruments, the maximum exposure to credit risk is the carrying amount reported on the balance sheet. For off-balance sheet instruments, the maximum exposure to credit risk generally represents the contractual notional amounts.

The Group's exposure to credit risk is spread across our markets. The Group is affected by the general economic conditions in the territories in which it operates. The Group sets limits on the exposure to any counterparty and credit risk is spread over a variety of different personal and commercial customers.

Standard Chartered Bank

Risk review continued

The Group's maximum exposure to credit risk has increased by \$29.2 billion when compared to 2011. Exposure to loans and advances to banks and customers has increased by \$19.7 billion since 2011 due to growth in the consumer unsecured lending portfolio in Consumer Banking and broad based growth across several industry sectors in Wholesale Banking. Further details of the loan portfolio are set out on page 24. The Group's credit risk exposure arising from derivatives has decreased by \$9.0 billion when compared to 2011.

	Group		Company	
	2012	2011	2012	2011
	\$million	\$million	\$million	\$million
Derivative financial instruments	49,496	58,567	47,443	56,929
Loans and advances to customers	288,863	271,778	142,822	128,051
Loans and advances to banks	69,154	66,548	38,024	37,538
Investment securities ¹	114,313	100,419	52,504	45,113
Contingent liabilities	44,449	42,880	34,248	32,087
Undrawn irrevocable standby facilities, credit lines and other commitments to lend	56,697	52,700	33,360	27,368
Documentary credits and short term trade-related transactions	7,752	8,612	4,808	5,759
Forward asset purchases and forward deposits placed	711	733	-	-
	631,435	602,237	353,209	332,845

¹ Excludes equity shares.

Credit risk mitigation

Loans and advances

The Group holds collateral against loans and advances to customer and banks of \$140 billion (2011: \$142 billion). Further details of collateral held by businesses and held for past due and individually impaired loans are set on pages 29.

The Group has transferred to third parties by way of securitisation the rights to any collection of principal and interest on customer loan assets with a face value of \$1,321 million (2011: \$2,212 million). The Group continues to recognise these assets in addition to the proceeds and related liability of \$1,093 million (2011: \$1,843 million) arising from the securitisations. The Group considers the above customer loan assets to be encumbered. Further details of encumbered assets are provided on page 73.

The Group has entered into credit default swaps for portfolio management purposes, referencing loan assets with a notional value of \$22.1 billion (2011: \$20.3 billion). These credit default swaps are accounted for as guarantees. The Group continues to hold the underlying assets referenced in the credit default swaps as it continues to be exposed to related credit and foreign exchange risk on these assets. Further details of the transactions as set out in the special purposes entity note 43 of the financial statement on page 190.

The Company holds collateral against loans and advances to customer and banks of \$65 billion (2011: \$65 billion). Further details of collateral held by businesses and held for past due and individually impaired loans are set on pages 29.

The Company has transferred to third parties by way of securitisation the rights to any collection of principal and interest on customer loan assets with a face value of \$54 million (2011: \$248 million). The Company continues to recognise these assets in addition to the proceeds and related liability of \$52 million (2011: \$71 million) arising from the securitisations. The Company considers the above customer loan assets to be encumbered. Further details of encumbered assets are provided on page 74.

The Company has entered into credit default swaps for portfolio management purposes, referencing loan assets with a notional value of \$22.1 billion (2011: \$20.3 billion). The Company continues to hold the underlying assets referenced in the credit default swaps as it continues to be exposed to related credit and foreign exchange risk on these assets. Further details of the transactions as set out in the special purposes entity note 43 of the financial statement on page 190.

Derivatives financial instruments

With respect to derivatives the Group enters into master netting arrangements which result in a single amount owed by or to the counterparty through netting the sum of the positive and negative mark-to-market values of applicable derivative transactions. At 31 December 2012 \$35,073 million (2011: \$40,605 million) is available for offset as a result of master netting agreements.

The Group holds cash collateral against derivative and other financial instruments of \$3,245 million (2011: \$3,145 million) as disclosed in note 31 on page 168.

Cash collateral includes collateral called under a variation margin process from counterparties if total uncollateralised mark-to-market exposure exceeds the threshold and minimum transfer amount specified in the CSA. With certain counterparties, the CSA is reciprocal and requires us to post collateral if the overall mark-to-market values of positions is in the counterparty's favour and exceeds an agreed threshold. The Group holds \$2,700 million (2011: \$2,452 million) under CSAs.

With respect to derivatives the Company enters into master netting arrangements which result in a single amount owed by or to the counterparty through netting the sum of the positive and negative mark-to-market values of applicable derivative transactions. At 31 December 2012 \$34,633 million (2011: \$37,907 million) is available for offset as a result of master netting agreements.

The Company holds cash collateral against derivative and other financial instruments of \$2,881 million (2011: \$2,920 million) as disclosed in note 31 on page 168.

Standard Chartered Bank

Risk review continued

Included within the above is additional collateral called under a variation margin process. With certain counterparties, the CSA is reciprocal and requires us to post collateral if the overall mark-to-market values of positions is in the counterparty's favour and exceeds an agreed threshold. The Company holds \$2,361 million (2011: \$2,135 million) under CSAs.

Off-balance sheet exposures

For certain types of exposures such as letters of credit and guarantees, the Group obtains collateral such as cash depending on internal credit risk assessments as well as the case of letters of credit holding legal title to the underlying assets should a default take place.

Loan portfolio - Group

This section covers a summary of the Group's loan portfolio broadly analysed by business and geography, along with an analysis of the maturity profile, credit quality and provisioning of the loan book.

A more detailed analysis is set out for Consumer Banking on pages 34 to 44 and Wholesale Banking on pages 44 to 56.

Geographic analysis

Loans and advances to customers grew by \$17.1 billion since 31 December 2011 to \$288.9 billion. The Consumer Banking portfolio in 2012 has grown by \$7.6 billion, or 6 per cent since 2011 with a majority of the increase driven by unsecured lending in Hong Kong, Singapore and Korea. Consumer Banking Loans in Africa also grew strongly, up 28 per cent. The Wholesale Banking portfolio has continued to grow in 2012, increasing by \$9.4 billion, or 6 per cent, compared to December 2011 with all geographic regions except Hong Kong growing balances. Loans to banks have increased by \$2.6 billion since 31 December 2011 to \$69.2 billion.

Geographic analysis - Group

	2012								
	Hong Kong \$million	Singapore \$million	Korea \$million	Other Asia Pacific \$million	India \$million	Middle East & Other S Asia \$million	Africa \$million	Americas UK & Europe \$million	Total \$million
Consumer Banking	31,324	27,567	28,587	29,161	5,190	5,418	1,710	3,919	132,876
Wholesale Banking	21,515	28,321	7,710	24,336	6,827	14,672	6,327	47,023	156,731
Portfolio impairment provision	(74)	(47)	(132)	(188)	(39)	(138)	(63)	(63)	(744)
Total loans and advances to customers ^{1,2}	52,765	55,841	36,165	53,309	11,978	19,952	7,974	50,879	288,863
Total loans and advances to banks ^{1,2}	19,356	6,205	4,633	8,720	571	3,172	378	26,119	69,154

	2011								
	Hong Kong \$million	Singapore \$million	Korea \$million	Other Asia Pacific ³ \$million	India \$million	Middle East & Other S Asia \$million	Africa ³ \$million	Americas UK & Europe \$million	Total \$million
Consumer Banking	27,554	24,014	31,546	27,913	4,830	4,615	1,341	3,437	125,250
Wholesale Banking	23,432	24,815	6,646	23,890	6,407	13,957	6,002	42,139	147,288
Portfolio impairment provision	(72)	(41)	(126)	(184)	(84)	(138)	(49)	(66)	(760)
Total loans and advances to customers ^{1,2,3}	50,914	48,788	38,066	51,619	11,153	18,434	7,294	45,510	271,778
Total loans and advances to banks ^{1,2,3}	19,097	7,301	3,777	8,305	362	2,426	638	24,642	66,548

¹ Amounts are net of impairment provision and include financial instruments held at fair value through profit or loss (see note 15 on page 122)

² Loans and advances to customers in the above table are presented on the basis of the booking location of the loan. The analysis of loans and advances by geography presented on page 108 in note 2 of the financial statements present loans based on the location of the customers.

³ Amounts have been restated as explained in note 46.

Standard Chartered Bank

Risk review continued

Geographic analysis - Company

Loans and advances to customers have grown by \$14.8 billion since 2011 to \$142.8 billion. Compared to 2011, the Consumer Banking Portfolio has grown by \$5.0 billion or 13.5 per cent, mainly due to increased unsecured loan lending. Growth in the Wholesale Banking customer portfolio was \$9.7 billion or 10.6 per cent, since 2011. Exposure to bank counterparties has grown by \$0.5 billion since 2011 to \$38.0 billion. We remain highly liquid and a net lender to the interbank money market.

	2012						
	Singapore \$million	Other Asia Pacific \$million	India \$million	Middle East & Other S Asia \$million	Africa \$million	Americas UK & Europe \$million	Total \$million
Consumer Banking	27,567	1,579	5,062	4,955	15	2,857	42,035
Wholesale Banking	28,321	4,793	6,590	13,648	1,641	46,100	101,093
Portfolio impairment provision	(47)	(31)	(37)	(125)	(3)	(63)	(306)
Total loans and advances to customers¹	55,841	6,341	11,615	18,478	1,653	48,894	142,822
Total loans and advances to banks¹	6,205	2,246	560	3,131	115	25,767	38,024

	2011						
	Singapore \$million	Other Asia Pacific \$million	India \$million	Middle East & Other S Asia \$million	Africa \$million	Americas UK & Europe \$million	Total \$million
Consumer Banking	24,014	1,513	4,706	4,126	19	2,656	37,034
Wholesale Banking	24,815	3,979	6,226	12,862	1,498	41,984	91,364
Portfolio impairment provision	(41)	(32)	(82)	(124)	(2)	(66)	(347)
Total loans and advances to customers^{1,2}	48,788	5,460	10,850	16,864	1,515	44,574	128,051
Total loans and advances to banks^{1,2}	7,224	3,320	343	2,286	136	24,229	37,538

¹ Amounts include financial instruments held at fair value through profit or loss (see Note 15 on page 122).

² Amounts have been restated as explained in note 46.

Maturity analysis - Group

Approximately half of our loans and advances to customers are short-term having a contractual maturity of one year or less. The Wholesale Banking portfolio remains predominantly short-term, with 62 per cent (2011: 64 per cent) of loans and advances having a contractual maturity of one year or less. In Consumer Banking, 55 per cent (2011: 58 per cent) of the portfolio is in the mortgage book, which is traditionally longer term in nature and well secured. Whilst the Other and SME loans in Consumer Banking have short contractual maturities, typically they may be renewed and repaid over longer terms in the normal course of business.

	2012			
	One year or less \$million	One to five years \$million	Over five years \$million	Total \$million
Consumer Banking	39,795	24,511	68,570	132,876
Wholesale Banking	97,444	46,729	12,558	156,731
Portfolio impairment provision				(744)
				288,863

	2011			
	One year or less \$million	One to five years \$million	Over five years \$million	Total \$million
Consumer Banking ¹	33,679	25,844	65,727	125,250
Wholesale Banking	94,827	42,588	9,873	147,288
Portfolio impairment provision				(760)
				271,778

¹ Amounts have been restated as explained in note 46.

Standard Chartered Bank

Risk review continued

Maturity Analysis – Company

Approximately 53 per cent of the Company's loans and advances to customers are short-term having a contractual maturity of one year or less. The Wholesale Banking portfolio remains predominantly short-term, with 59 per cent (2011: 61 per cent) of loans and advances having a contractual maturity of one year or less. In Consumer Banking 45 per cent (2011: 43 per cent) of the portfolio is in the mortgage book, which is traditionally longer term in nature and well secured. Whilst the Other and SME loans in Consumer Banking have short contractual maturities, typically they may be renewed and repaid over longer term in the normal course of business.

The following tables show the contractual maturity of loans and advances to customers by each principal category of borrowers' business or industry.

	2012			Total \$million
	One year or less \$million	One to five years \$million	Over five years \$million	
Consumer Banking	16,662	5,318	20,055	42,035
Wholesale Banking	59,254	31,426	10,413	101,093
Portfolio impairment provision				(306)
				142,822

	2011			Total \$million
	One year or less \$million	One to five years \$million	Over five years \$million	
Consumer Banking ¹	14,061	6,709	16,264	37,034
Wholesale Banking	55,980	27,143	8,241	91,364
Portfolio impairment provision				(347)
				128,051

¹ Amounts have been restated as explained in note 46.

Standard Chartered Bank

Risk review continued

Credit quality analysis – Group

The table below sets out an analysis of the loan portfolio between those loans that are neither past due nor impaired, those that are past due but not individually impaired and those that are individually impaired.

Most of the Group's loans to banks are in the credit grade 1-5 category as we lend in the interbank market to highly rated counterparties. Exposure in the credit grade 6-8 category predominantly relates to trade finance business with financial institutions in our core markets.

As at 31 December 2012 5.9 per cent of the Wholesale Banking loans to customers are either past due or individually impaired up from 2.8 per cent in 31 December 2011. Loans past due less than 30 days are \$1.6 billion and increased by \$1.0 billion mainly in Hong Kong and UAE. The majority of these exposures were repaid or renegotiated shortly after the year-end.

Loans past due more than 60 days but less than 90 days increased by \$2.9 billion compared to 2011 and related to a very small number of exposures on which interest and other servicing charges were overdue. These were regularised prior to renegotiations on commercial terms and with no shortfall in the present value of cash flows when compared to the original terms of the loans and no impairment is expected.

Net individually impaired loans in Wholesale Banking increased by \$0.8 billion driven by a small number of exposures in India and UAE.

The proportion of Consumer Banking loans which are past due or individually impaired increased to 4.6 per cent at 31 December 2012 which is slightly higher than 4.1 per cent at 31 December 2011, largely driven though by an increase in loans in the less than 30 days past due category as a result of timing differences around the year end. In a high proportion of cases the overdue amounts in this bucket are collected well before they reach more than 30 days past due.

	2012				2011			
	Loans to banks	Loans to customers – Wholesale Banking	Loans to customers – Consumer Banking	Total loans to customers	Loans to banks	Loans to customers – Wholesale Banking	Loans to customers – Consumer Banking	Total loans to customers
	\$million	\$million	\$million	\$million	\$million	\$million	\$million	\$million
Neither past due nor individually impaired loans								
- Grades 1-5	59,696	63,274	59,280	122,554	54,837	59,755	55,965	115,720
- Grades 6-8	7,762	62,368	41,833	104,201	10,432	60,162	40,238	100,400
- Grades 9-11	1,457	22,272	23,597	45,869	980	22,925	22,579	45,504
- Grade 12	32	1,400	2,689	4,089	76	1,674	1,835	3,509
	68,947	149,314	127,399	276,713	66,325	144,516	120,617	265,133
Past due but not individually impaired loans								
- Up to 30 days past due	3	1,602	3,832	5,434	75	577	3,187	3,764
- 31 - 60 days past due	-	115	515	630	-	129	477	606
- 61 - 90 days past due	-	3,058	238	3,296	-	203	217	420
- 91 - 150 days past due	-	-	216	216	-	-	154	154
	3	4,775	4,801	9,576	75	909	4,035	4,944
Individually impaired loans	309	4,437	1,249	5,686	232	3,262	1,089	4,351
Individual impairment provisions	(103)	(1,795)	(573)	(2,368)	(82)	(1,399)	(491)	(1,890)
Net individually impaired loans	206	2,642	676	3,318	150	1,863	598	2,461
Total loans and advances	69,156	156,731	132,876	289,607	66,550	147,288	125,250	272,538
Portfolio impairment provision	(2)	(309)	(435)	(744)	(2)	(326)	(434)	(760)
	69,154	156,422	132,441	288,863	66,548	146,962	124,816	271,778

Of which, held at fair value through profit or loss:

Neither past due nor individually impaired

- Grades 1-5	555	1,237	-	1,237	217	1,599	-	1,599
- Grades 6-8	219	3,048	-	3,048	351	2,651	-	2,651
- Grades 9-11	-	692	-	692	-	563	-	563
- Grade 12	-	1	-	1	-	175	-	175
	774	4,978	-	4,978	568	4,988	-	4,988

Standard Chartered Bank

Risk review continued

Credit quality analysis - Company

	2012				2011			
	Loans to banks	Loans to customers – Wholesale Banking	Loans to customers – Consumer Banking	Total loans to customers	Loans to banks	Loans to customers – Wholesale Banking	Loans to customers – Consumer Banking	Total loans to customers
	\$million	\$million	\$million	\$million	\$million	\$million	\$million	\$million
Neither past due nor individually impaired loans								
- Grades 1-5	29,383	40,693	17,665	58,358	27,440	36,567	13,635	50,202
- Grades 6-8	7,332	40,360	16,185	56,545	9,157	37,770	15,849	53,619
- Grades 9-11	1,162	13,270	4,896	18,166	800	13,859	5,358	19,217
- Grade 12	32	949	1,697	2,646	75	1,367	747	2,114
	37,909	95,272	40,443	135,715	37,472	89,563	35,589	125,152
Past due but not individually impaired loans								
- Up to 30 days past due	1	606	1,227	1,833	13	224	1,034	1,258
- 31 - 60 days past due	-	52	161	213	-	69	182	251
- 61 - 90 days past due	-	2,921	64	2,985	-	4	80	84
- 91 - 150 days past due	-	-	67	67	-	-	66	66
	1	3,579	1,519	5,098	13	297	1,362	1,659
Individually impaired loans	139	3,383	233	3,616	58	2,359	241	2,600
Individual impairment provisions	(24)	(1,141)	(160)	(1,301)	(4)	(855)	(158)	(1,013)
Net individually impaired loans	115	2,242	73	2,315	54	1,504	83	1,587
Total loans and advances	38,025	101,093	42,035	143,128	37,539	91,364	37,034	128,398
Portfolio impairment provision	(1)	(192)	(114)	(306)	(1)	(216)	(131)	(347)
	38,024	100,901	41,921	142,822	37,538	91,148	36,903	128,051

Of which, held at fair value through profit or loss:

Neither past due nor individually impaired

- Grades 1-5	555	1,166	-	1,166	215	1,527	-	1,527
- Grades 6-8	219	3,037	-	3,037	351	2,526	-	2,526
- Grades 9-11	-	637	-	637	-	562	-	562
- Grade 12	-	-	-	-	-	163	-	163
	774	4,840	-	4,840	566	4,778	-	4,778

Standard Chartered Bank

Risk review continued

Collateral – Group

The requirement for collateral is not a substitute for the ability to pay, which is the primary consideration for any lending decisions. In determining the financial effect of collateral held against loans neither past due or impaired, we have assessed the significance of the collateral held in relation to the type of lending.

For loans and advances to banks and customer (including those held at fair value through profit or loss), the table below sets out the fair value of collateral held by the Group adjusted where appropriate in accordance with the risk mitigation policy as outlined on page 23 and for the effect of over-collateralisation.

Collateral held against Consumer Banking loans fell as a result of proportion of total lending, reflecting the gradual shift in mix to unsecured loans. 72 per cent of the loans to customers are fully secured and around 90 per cent of collateral across the portfolio is properly based and around 90 percent of the collateral across the portfolio is property based.

Collateral held against Wholesale Banking loans also covers the off-balance sheet exposures including undrawn commitments and trade related instruments. As a proportion of total lending in Wholesale banking, collateral decreased compared to 31 December 2011, although the proportion of collateral held in assets and properties increased to over 50 per cent from around 40 per cent in 2011.

Further details on collateral are explained in Consumer Banking and Wholesale Banking sections on page 38 and 53 respectively.

	Consumer Banking			Wholesale Banking			Total		
	Total	Past due but not individually impaired loans	Individually impaired loans	Total	Past due but not individually impaired loans	Individually impaired loans	Total	Past due but not individually impaired loans	Individually impaired loans
	\$million	\$million	\$million	\$million	\$million	\$million	\$million	\$million	\$million
As at 31 December 2012									
Collateral	88,119	2,802	570	51,594	1,823	591	139,713	4,625	1,161
Amount outstanding ¹	132,876	4,801	1,249	225,887	4,778	4,746	358,763	9,579	5,995
As at 31 December 2011									
Collateral	88,471	2,481	568	53,790	328	459	142,261	2,809	1,027
Amount outstanding ¹	125,250	4,035	1,089	213,838	984	3,494	339,088	5,019	4,583

¹ Includes loans at fair value through profit or loss amounts.

Collateral – Company

	Consumer Banking			Wholesale Banking			Total		
	Total	Past due but not individually impaired loans	Individually impaired loans	Total	Past due but not individually impaired loans	Individually impaired loans	Total	Past due but not individually impaired loans	Individually impaired loans
	\$million	\$million	\$million	\$million	\$million	\$million	\$million	\$million	\$million
As at 31 December 2012									
Collateral	28,208	947	149	36,941	1,174	476	65,149	2,121	625
Amount outstanding ¹	42,035	1,519	233	139,118	3,580	3,522	181,153	5,099	3,755
As at 31 December 2011									
Collateral	27,943	669	163	36,693	71	291	64,636	740	454
Amount outstanding ¹	37,034	1,362	241	128,903	310	2,417	165,937	1,672	2,658

¹ Includes loans at fair value through profit or loss amounts.

Standard Chartered Bank

Risk review continued

Collateral and other credit enhancements possessed or called upon

The Group obtains assets by taking possession of collateral or calling upon other credit enhancements (such as guarantees). Repossessed properties are sold in an orderly fashion. Where the proceeds are in excess of the outstanding loan balance they are returned to the borrower. Certain equity securities acquired may be held by the Group for investment purposes and are classified as available-for-sale, and the related loan written off. The table below details the carrying value of collateral possessed and held by the Group at 31 December 2012 and 31 December 2011:

Group

	2012			2011		
	Consumer Banking	Wholesale Banking	Total	Consumer Banking	Wholesale Banking	Total
	\$million	\$million	\$million	\$million	\$million	\$million
Property	65	9	74	79	-	79
Other	3	-	3	3	-	3
	68	9	77	82	-	82

Company

	2012			2011		
	Consumer Banking	Wholesale Banking	Total	Consumer Banking	Wholesale Banking	Total
	\$million	\$million	\$million	\$million	\$million	\$million
Property	2	-	2	6	-	6
Other	3	-	3	2	-	2
	5	-	5	8	-	8

Problem credit management and provisioning

The Group's loan loss provisions are established to recognise incurred impairment losses either on specific loan assets or within a portfolio of loans and advances. Individually impaired loans are those loans against which individual impairment provisions have been raised. The Group's accounting policy on loan loss provisioning is discussed in note 1 on page 98.

Estimating the amount and timing of future recoveries involves significant judgement, and considers the level of arrears as well as the assessment of matters such as future economic conditions and the value of collateral, for which there may not be a readily accessible market.

Loan losses that have been incurred but have not been separately identified at the balance sheet date are determined on a portfolio basis, which takes into account past loss experience as a result of uncertainties arising from the economic environment, and defaults based on portfolio trends. Actual losses identified could differ significantly from the impairment provisions reported as a result of uncertainties arising from the economic environment.

The total amount of the Group's impairment allowances is inherently uncertain being sensitive to changes in economic and credit conditions across the geographies that the Group operates in. Economic and credit conditions are interdependent within each geography and as a result there is no single factor to which the Group's loan impairment allowances as a whole are sensitive. It is possible that actual events over the next year differ from the assumptions built into the model resulting in material adjustments to the carrying amount of loans and advances.

Non-performing loans

A non-performing loan is any loan that is more than 90 days past due or is otherwise individually impaired (which represents those loans against which individual impairment provisions have been raised) and excludes:

- Loans renegotiated before 90 days past due and on which no default in interest payments or loss of principal is expected;
- Loans renegotiated at or after 90 days past due, but on which there has been no default in interest or principal payments for more than 180 days since renegotiation, and against which no loss of principal is expected.

The gross non-performing loans in Consumer Banking have increased by 18 per cent since 31 December 2011 mainly reflecting the shift in mix towards unsecured lending, the impact of the Personal Debt Rehabilitation Scheme (PDRS) regulation in Korea and seasoning of the loan portfolio. In Wholesale Banking, non-performing loans have increased by \$1.2 billion mainly due to a small number of large exposures in India and UAE. The table below presents a summary of the non-performing loans and cover ratio for Consumer Banking and Wholesale Banking. Further details by geography are set out in pages 41 and 53 for Consumer Banking and Wholesale Banking respectively.

Standard Chartered Bank

Risk review continued

Group

	2012		2011	
	Consumer Banking	Wholesale Banking	Consumer Banking	Wholesale Banking
	\$million	\$million	\$million	\$million
Gross non-performing loans	1,291	4,309	1,096	3,087
Individual impairment provisions ¹	(532)	(1,897)	(458)	(1,459)
Portfolio impairment provision	(435)	(311)	(434)	(328)
Cover ratio (%)	75%	51%	81%	58%

Company

	2012		2011	
	Consumer Banking	Wholesale Banking	Consumer Banking	Wholesale Banking
	\$million	\$million	\$million	\$million
Gross non-performing loans	301	3,101	320	2,034
Individual impairment provisions	(159)	(1,164)	(158)	(861)
Portfolio impairment provision	(114)	(193)	(131)	(216)
Cover ratio (%)	91%	44%	90%	53%

¹ The difference to total individual impairment provision at 31 December 2012 reflects provisions against restructured loans that are not included within non-performing loans as they have been performing for 180 days.

Individual and portfolio impairment provisions

Individual impairment provision increased by \$499 million as compared to 31 December 2011. This was primarily in India (\$158 million increase), UAE (\$201 million increase) as a result of a small number of Wholesale banking exposures and in Korea (\$110 million increase) due to higher levels of filings under the Personal Debt Rehabilitation Scheme (PDRS). Portfolio impairment provision fell \$16 million primarily due to the release of an additional Portfolio impairment provision in India which was created in 2011 in respect of market uncertainty.

The following tables set out the movements in total individual and portfolio impairment provisions, together with the movement in individual impairment provisions by geography :

Group

	2012			2011		
	Individual impairment provisions	Portfolio impairment provision	Total	Individual impairment provisions	Portfolio impairment provision	Total
	\$million	\$million	\$million	\$million	\$million	\$million
Provisions held at 1 January	1,972	762	2,734	1,917	762	2,679
Exchange translation differences	2	11	13	(40)	(14)	(54)
Amounts written off	(958)	-	(958)	(957)	-	(957)
Recoveries of acquisition fair values	(3)	-	(3)	(10)	-	(10)
Recoveries of amounts previously written off	288	-	288	265	-	265
Discount unwind	(77)	-	(77)	(70)	-	(70)
New provisions	1,716	157	1,873	1,266	130	1,396
Recoveries/provisions no longer required	(469)	(184)	(653)	(399)	(116)	(515)
Net charge/(release) against profit	1,247	(27)	1,220	867	14	881
Provisions held at 31 December	2,471	746	3,217	1,972	762	2,734

Company

	2012			2011		
	Individual impairment provisions	Portfolio impairment provision	Total	Individual impairment provisions	Portfolio impairment provision	Total
	\$million	\$million	\$million	\$million	\$million	\$million
At 1 January	1,017	348	1,365	865	362	1,227
Exchange translation differences	(9)	(1)	(10)	(25)	(9)	(34)
Amounts written off	(324)	-	(324)	(377)	-	(377)
Recoveries of amounts previously written off	100	-	100	75	-	75
Discount unwind	(42)	-	(42)	(36)	-	(36)
New provisions	724	39	763	607	49	656
Recoveries/provisions no longer required	(141)	(79)	(220)	(92)	(54)	(146)
Net charge/(release) against profit	583	(40)	543	515	(5)	510
Provisions held at 31 December	1,325	307	1,632	1,017	348	1,365

Standard Chartered Bank

Risk review continued

Group

2012									
	Hong Kong	Singapore	Korea	Other Asia Pacific	India	Middle East & Other S Asia	Africa	Americas UK & Europe	Total
	\$million	\$million	\$million	\$million	\$million	\$million	\$million	\$million	\$million
Provisions held at 1 January 2012	78	38	136	471	112	972	61	104	1,972
Exchange translation differences	-	5	17	(1)	(7)	(9)	(4)	1	2
Amounts written off	(155)	(57)	(175)	(342)	(42)	(123)	(29)	(35)	(958)
Releases of acquisition fair values	-	-	-	(2)	-	(2)	-	1	(3)
Recoveries of amounts previously written off	44	44	28	124	11	29	5	3	288
Discount unwind	(2)	(3)	(13)	(17)	(13)	(28)	(1)	-	(77)
New provisions	158	111	334	428	235	387	31	32	1,716
Recoveries/provisions no longer required	(49)	(49)	(81)	(186)	(26)	(53)	(14)	(11)	(469)
Net impairment charge against profit	109	62	253	242	209	334	17	21	1,247
Provisions held at 31 December 2012	74	89	246	475	270	1,173	49	95	2,471

2011									
	Hong Kong	Singapore	Korea	Other Asia Pacific	India	Middle East & Other S Asia	Africa	Americas UK & Europe	Total
	\$million	\$million	\$million	\$million	\$million	\$million	\$million	\$million	\$million
Provisions held at 1 January 2011	102	25	193	507	112	782	60	136	1,917
Exchange translation differences	-	(1)	(1)	(1)	(20)	(13)	(4)	-	(40)
Amounts written off	(121)	(52)	(244)	(304)	(51)	(136)	(19)	(30)	(957)
Releases of acquisition fair values	-	-	-	(8)	-	(2)	-	-	(10)
Recoveries of amounts previously written off	27	18	16	147	13	30	12	2	265
Discount unwind	(3)	(1)	(12)	(16)	(11)	(23)	(2)	(2)	(70)
New provisions	111	72	214	333	98	395	35	8	1,266
Recoveries/provisions no longer required	(38)	(23)	(30)	(187)	(29)	(61)	(21)	(10)	(399)
Net impairment charge/(release) against profit	73	49	184	146	69	334	14	(2)	867
Provisions held at 31 December 2011	78	38	136	471	112	972	61	104	1,972

Standard Chartered Bank

Risk review continued

Forbearance and other renegotiated loans

In certain circumstances, the Group may renegotiate client and customer loans. Loans that are renegotiated on terms that are not consistent with those readily available in the market and/or where we have granted a concession compared to the original terms of the loans, are considered to be subject to forbearance strategies and are disclosed as "Loans subject to forbearance" in the disclosures below. Loans that are renegotiated primarily to prevent the loan becoming past due or impaired are considered to be "Renegotiated loans that would otherwise be past due or impaired" in the disclosures below. Loans that are renegotiated for commercial reasons, which may occur, for example, if a client had a credit rating upgrade, are not included within this disclosure.

Forbearance strategies assist customers who are temporarily in financial distress and are unable to meet their original contractual repayment terms. Forbearance can be initiated by the customer, the bank or a third party (including Government sponsored programmes or a conglomerate of credit institutions) and includes debt restructuring, such as a new repayment schedule, payment deferrals, tenor extensions and interest only payments.

The Group's impairment policy requires higher impairment charges for loans subject to forbearance than for fully performing assets. A discount provision is raised if there is a shortfall when comparing the present value of future cash flows under the revised terms and the carrying value of the loan before restructuring.

In Consumer Banking, excluding Medium Enterprises and Private Banking, all loans subject to forbearance (in addition to other renegotiated loans) are managed within a separate portfolio. If such loans subsequently become past due, write off and IIP is accelerated to 90 days past due (unsecured loans and automobile finance) or 120 days past due (secured loans). The accelerated loss rates applied to this portfolio are derived from experience with other renegotiated loans, rather than the Consumer Banking portfolio as a whole, to recognise the greater degree of inherent risk.

At 31 December 2012, \$769 million (2011: \$708 million) of Consumer Banking loans were subject to forbearance programmes, which required impairment provisions to be recognised. This represents 0.6 per cent of total loans and advances to Consumer Banking customers. These loans were largely concentrated in countries that have active government sponsored forbearance programmes. Provision coverage against these loans was 12 per cent (2011: 17 per cent), reflecting collateral held and expected recovery rates.

At 31 December 2012 the Company had \$181 million (2011: \$180 million) of Consumer Banking loans being subject to forbearance programmes, which represents 0.4 per cent of total loans and advances to Consumer Banking customers. These loans were largely concentrated in countries that have active Government sponsored forbearance programmes. Provision coverage against these loans was 12 per cent (2011: 17 per cent), reflecting collateral held and expected recovery rates.

	2012		2011	
	Gross loans \$million	Provisions \$million	Gross loans \$million	Provisions \$million
Loans subject to forbearance	769	96	708	117
Renegotiated loans that would otherwise be past due/impaired	319	-	228	-
Total Consumer Banking	1,088	96	936	117

For Wholesale Banking and Medium Enterprises and Private Banking accounts, forbearance and other renegotiations are applied on a case-by-case basis and are not subject to business wide programmes. In some cases, a new loan is granted as part of the restructure and in others, the contractual terms and repayment of the existing loans are changed or extended (for example, interest only for a period).

These accounts are managed by GSAM even if they are not impaired (that is the present value of the new cash flows is the same or greater than the present value of the original cash flows) and are reviewed at least quarterly to assess and confirm the client's ability to adhere to the restructured repayment strategy. Accounts are also reviewed if there is a significant event that could result in deterioration in their ability to repay.

If the terms of the restructure are such that an independent party in the same geographic area would not be prepared to provide financing on substantially the same terms and conditions, or where the present value of the new cash flows is lower than the present value of the original cash flows, the loan would be considered to be impaired and at a minimum a discount provision would be raised. These accounts are monitored as described on page 21.

At 31 December 2012, \$1,011 million (2011: \$873 million) of Wholesale Banking loans were subject to forbearance strategies which required impairment provisions to be recognised. This represents 0.6 per cent of total loans and advances to Wholesale Banking customers. \$437 million (2011: \$407 million) of loans subject to forbearance represents those loans that have complied with the renegotiated loan terms for more than 180 days. Although these remain impaired loans, they are excluded from our analysis of non-performing loans.

	2012		2011	
	Gross loans \$million	Provisions \$million	Gross loans \$million	Provisions \$million
Loans subject to forbearance	1,011	232	873	127
Renegotiated loans that would otherwise be past due/impaired	773	-	609	-
Total Wholesale Banking	1,784	232	1,482	127

Standard Chartered Bank

Risk review continued

Consumer Banking loan portfolio

The Consumer Banking portfolio in 2012 has grown by \$7.6 billion, or 6 per cent compared to 2011. The proportion of mortgages in the Consumer Banking portfolio is 55 per cent. The overall mortgage portfolio was broadly flat as regulatory restrictions continued to restrict growth in a number of markets particularly in Korea and Taiwan where balances fell. Compared to 2011 we did however originate and sell \$4.9 billion of fixed rate mortgages in Korea under the Mortgage Purchase Program to the Korea Housing Finance Corporation. Other loans, which include credit cards and personal loans (including those related to Private Banking) increased by \$4.9 billion since 2011 as we continued to selectively grow our unsecured lending portfolios, particularly in Hong Kong, Singapore and Korea Africa also saw strong growth in unsecured products up 20 per cent compared to 2011. SME lending continued to grow, up by \$1.9 billion compared to 2011 with growth in the core strategic trade and working capital products partly offset by lower levels of mortgages.

Geographic analysis – Group

	2012								Total \$million
	Hong Kong \$million	Singapore \$million	Korea \$million	Other Asia Pacific \$million	India \$million	Middle East & Other S Asia \$million	Africa \$million	Americas UK & Europe \$million	
Loans to individuals									
Mortgages	21,441	14,278	16,686	15,574	2,284	1,629	256	1,221	73,369
Other	6,843	10,038	6,936	7,017	806	2,902	1,152	2,696	38,390
Small and medium enterprises	3,040	3,251	4,965	6,570	2,100	887	302	2	21,117
	31,324	27,567	28,587	29,161	5,190	5,418	1,710	3,919	132,876
Portfolio impairment provision	(50)	(26)	(116)	(153)	(20)	(44)	(22)	(4)	(435)
Total loans and advances to customers	31,274	27,541	28,471	29,008	5,170	5,374	1,688	3,915	132,441

	2011								Total \$million
	Hong Kong \$million	Singapore \$million	Korea \$million	Other Asia Pacific \$million	India \$million	Middle East & Other S Asia \$million	Africa \$million	Americas UK & Europe \$million	
Loans to individuals									
Mortgages ¹	19,245	12,076	20,835	15,905	2,062	1,486	216	749	72,574
Other	5,558	8,909	6,098	6,218	626	2,388	962	2,686	33,445
Small and medium enterprises	2,751	3,029	4,613	5,790	2,142	741	163	2	19,231
	27,554	24,014	31,546	27,913	4,830	4,615	1,341	3,437	125,250
Portfolio impairment provision	(45)	(22)	(101)	(159)	(21)	(63)	(19)	(4)	(434)
Total loans and advances to customers	27,509	23,992	31,445	27,754	4,809	4,552	1,322	3,433	124,816

¹ Amounts have been restated as explained in note 46.

Geographic analysis – Company

Compared to 2011, the Consumer Banking Portfolio has grown by \$5.0 billion or 14 per cent. The proportion of mortgages in the Company Banking Portfolio is lower than the Group proportion at 45 per cent. SME Lending has grown by \$0.3 billion or 5 per cent.

	2012							Total \$million
	Singapore \$million	Other Asia Pacific \$million	India \$million	Middle East & Other S Asia \$million	Africa \$million	Americas UK & Europe \$million		
Loans to individuals								
Mortgages	14,278	203	2,228	1,585	15	547	18,856	
Other	10,038	1,006	761	2,728	-	2,308	16,841	
Small and medium enterprises	3,251	370	2,073	642	-	2	6,338	
	27,567	1,579	5,062	4,955	15	2,857	42,035	
Portfolio impairment provision	(26)	(24)	(20)	(41)	-	(3)	(114)	
Total loans and advances to customers	27,541	1,555	5,042	4,914	15	2,854	41,921	

Standard Chartered Bank

Risk review continued

Geographic analysis - Company continued

	2011						Total \$million
	Singapore \$million	Other Asia Pacific \$million	India \$million	Middle East & Other S Asia \$million	Africa \$million	Americas UK & Europe \$million	
Loans to individuals							
Mortgages ¹	12,076	145	2,006	1,433	19	242	15,921
Other	8,909	950	573	2,221	-	2,412	15,065
Small and medium enterprises	3,029	418	2,127	472	-	2	6,048
	24,014	1,513	4,706	4,126	19	2,656	37,034
Portfolio impairment provision	(22)	(26)	(20)	(60)	-	(3)	(131)
Total loans and advances to customers	23,992	1,487	4,686	4,066	19	2,653	36,903

¹ Amounts have been restated as explained in note 46.

Maturity analysis - Group

The proportion of Consumer Banking loans maturing in less than one year increased compared to 31 December 2011, reflecting the strategic shift towards unsecured lending. In addition the increase in lending to SME and Private Banking clients are typically of short tenor.

The following tables show the contractual maturity of loans and advances to customers by each principal category of borrower.

	2012			Total \$million
	One year or less \$million	One to five years \$million	Over five years \$million	
Loans to individuals				
Mortgages	3,728	9,564	60,077	73,369
Other	24,477	11,158	2,755	38,390
Small and medium enterprises	11,590	3,789	5,738	21,117
	39,795	24,511	68,570	132,876
Portfolio impairment provision				(435)
				132,441

	2011			Total \$million
	One year or less \$million	One to five years \$million	Over five years \$million	
Loans to individuals				
Mortgages ¹	3,011	11,892	57,671	72,574
Other	20,194	10,502	2,749	33,445
Small and medium enterprises	10,474	3,450	5,307	19,231
	33,679	25,844	65,727	125,250
Portfolio impairment provision				(434)
				124,816

¹ Amounts have been restated as explained in note 46.

Standard Chartered Bank

Risk review continued

Maturity Analysis - Company

	2012			Total \$million
	One year or less \$million	One to five years \$million	Over five years \$million	
Loans to individuals				
Mortgages	611	1,772	16,473	18,856
Other	13,418	2,593	830	16,841
Small and medium enterprises	2,633	953	2,752	6,338
	16,662	5,318	20,055	42,035
Portfolio impairment provision				(114)
				41,921

	2011			Total \$million
	One year or less \$million	One to five years \$million	Over five years \$million	
Loans to individuals				
Mortgages ¹	319	2,871	12,731	15,921
Other	11,073	2,919	1,073	15,065
Small and medium enterprises	2,669	919	2,460	6,048
	14,061	6,709	16,264	37,034
Portfolio impairment provision				(131)
				36,903

¹ Amounts have been restated as explained in note 46.

Credit quality analysis - Group

The tables below set out the loan portfolio for Consumer Banking by product and by geography between those loans that are neither past due nor impaired, those that are past due but not individually impaired and those that are individually impaired for Consumer Banking. The overall credit quality of the portfolio remains good with over 95 per cent of the portfolio neither past due nor impaired. The mortgage portfolio is well collateralised and has an average loan to value ratio of 47.8 per cent.

The proportion of the past due but not individually impaired loans increased to \$4.8 billion or 3.6 per cent of the loan portfolio. Two-thirds of the increase of \$0.8 billion arose in less than 30 days past due category, primarily due to temporary timing differences in payments in Korea, Malaysia and Singapore.

Individually impaired loans increased by \$160 million primarily in Korea which was impacted by increased filings due to PDRS, which also drove the \$82 million increase in individual impairment provisions. The portfolio impairment provision was largely flat with an increase in Korea offset by reduced provisions in the MESA region where credit quality of the portfolio has improved.

	2012				2011			
	Neither past due nor individually impaired \$million	Past due but not individually impaired \$million	Individually impaired loans \$million	Total \$million	Neither past due nor individually impaired \$million	Past due but not individually impaired \$million	Individually impaired loans \$million	Total \$million
Loans to individuals								
Mortgages	70,920	2,237	350	73,507	70,332	2,023	356	72,711
Other	36,317	1,833	471	38,621	31,785	1,460	352	33,597
Small and medium enterprises	20,162	731	428	21,321	18,500	552	381	19,433
	127,399	4,801	1,249	133,449	120,617	4,035	1,089	125,741
Individual impairment provisions				(573)				(491)
Portfolio impairment provision				(435)				(434)
Total loans and advances to customers				132,441				124,816

Standard Chartered Bank

Risk review continued

Credit quality analysis - Group continued

	2012								
	Hong Kong	Singapore	Korea	Other Asia	India	Middle East & Other S Asia	Africa	Americas UK & Europe	Total
	\$million	\$million	\$million	\$million	\$million	\$million	\$million	\$million	\$million
Neither past due nor individually impaired	30,878	26,956	27,340	27,280	4,825	4,772	1,629	3,719	127,399
Past due but not individually impaired loans	404	569	1,059	1,594	342	587	69	177	4,801
Individually impaired loans	66	57	329	434	52	224	24	63	1,249
Individual impairment provisions	(24)	(15)	(141)	(147)	(29)	(165)	(12)	(40)	(573)
Portfolio impairment provision	(50)	(26)	(116)	(153)	(20)	(44)	(22)	(4)	(435)
Total loans and advances to customers	31,274	27,541	28,471	29,008	5,170	5,374	1,688	3,915	132,441

	2011								
	Hong Kong	Singapore	Korea	Other Asia Pacific	India	Middle East & Other S Asia	Africa	Americas UK & Europe	Total
	\$million	\$million	\$million	\$million	\$million	\$million	\$million	\$million	\$million
Neither past due nor individually impaired	27,202	23,478	30,525	26,319	4,492	3,952	1,299	3,350	120,617
Past due but not individually impaired loans	315	515	924	1,305	310	576	30	60	4,035
Individually impaired loans	54	35	165	435	60	246	28	66	1,089
Individual impairment provisions	(17)	(14)	(68)	(146)	(32)	(159)	(16)	(39)	(491)
Portfolio impairment provision	(45)	(22)	(101)	(159)	(21)	(63)	(19)	(4)	(434)
Total loans and advances to customers	27,509	23,992	31,445	27,754	4,809	4,552	1,322	3,433	124,816

Credit quality analysis - Company

	2012				2011			
	Neither past due nor individually impaired	Past due but not individually impaired	Individually impaired loans	Total	Neither past due nor individually impaired	Past due but not individually impaired	Individually impaired loans	Total
	\$million	\$million	\$million	\$million	\$million	\$million	\$million	\$million
Loans to individuals								
Mortgages	18,407	418	98	18,923	15,567	316	103	15,986
Other	16,062	759	42	16,863	14,306	751	27	15,084
Small and medium enterprises	5,974	342	93	6,409	5,716	295	111	6,122
	40,443	1,519	233	42,195	35,589	1,362	241	37,192
Individual impairment provisions				(160)				(158)
Portfolio impairment provision				(114)				(131)
Total loans and advances				41,921				36,903

	2012							Total
	Singapore	Other Asia Pacific	India	Middle East & Other S Asia	Africa	Americas UK & Europe		
	\$million	\$million	\$million	\$million	\$million	\$million		
Neither past due nor individually impaired		26,955	1,544	4,710	4,428	13	2,793	40,443
Past due but not individually impaired loans		569	34	331	519	1	65	1,519
Individually impaired loans		58	6	50	117	2	-	233
Individual impairment provisions		(15)	(5)	(29)	(109)	(2)	-	(160)
Portfolio impairment provision		(26)	(24)	(20)	(41)	1	(4)	(114)
Total loans and advances		27,541	1,555	5,042	4,914	15	2,854	41,921

Standard Chartered Bank

Risk review continued

Credit quality analysis - Company continued

	2011						Total \$million
	Singapore \$million	Other Asia Pacific \$million	India \$million	Middle East & Other S Asia \$million	Africa \$million	Americas UK & Europe \$million	
Neither past due nor individually impaired	23,478	1,456	4,383	3,601	15	2,656	35,589
Past due but not individually impaired loans	515	50	296	498	3	-	1,362
Individually impaired loans	35	13	59	130	4	-	241
Individual impairment provisions	(14)	(5)	(32)	(104)	(3)	-	(158)
Portfolio impairment provision	(22)	(27)	(20)	(59)	-	(3)	(131)
Total loans and advances	23,992	1,487	4,686	4,066	19	2,653	36,903

Credit mitigation

A secured loan is one where borrower pledges an asset as collateral which the Group is able to take possession of in the event that the borrower defaults. All secured loans are considered fully secured if the fair value of the collateral is equal to or greater than the loan at the time of origination. Other secured loans are considered to be partially secured. Within Consumer Banking, 72 per cent of lending is fully secured and 10 per cent was partially secured. The following tables present an analysis of Consumer Banking loans by product split between fully secured, partially secured and unsecured.

Secured and unsecured loans

Group

	2012				2011			
	Fully Secured \$million	Partially secured \$million	Unsecured \$million	Total \$million	Fully Secured \$million	Partially secured \$million	Unsecured \$million	Total \$million
Loans to individuals								
Mortgages	73,369	-	-	73,369	72,574	-	-	72,574
Other	15,959	-	22,431	38,390	14,317	-	19,128	33,445
Small and medium enterprises	5,967	12,707	2,443	21,117	5,415	11,967	1,849	19,231
	95,295	12,707	24,874	132,876	92,306	11,967	20,977	125,250
Per centage of total loans	72%	10%	18%		74%	9%	17%	

Company

	2012				2011			
	Fully Secured \$million	Partially secured \$million	Unsecured \$million	Total \$million	Fully Secured \$million	Partially secured \$million	Unsecured \$million	Total \$million
Loans to individuals								
Mortgages	18,856	-	-	18,856	15,921	-	-	15,921
Other	11,529	-	5,312	16,841	11,385	-	3,680	15,065
Small and medium enterprises	2,219	3,283	836	6,338	1,028	3,207	1,813	6,048
	32,604	3,283	6,148	42,035	28,334	3,207	5,493	37,034
Per centage of total loans	78%	8%	14%		77%	8%	15%	

Standard Chartered Bank

Risk review continued

Mortgage loans to value ratios by geography

The following table provides an analysis of loan to value (LTV) ratios by geography for the mortgages portfolio. LTV ratios are determined based on the ratios of the mortgage book to the fair value of the property. Overall the average LTV ratio for the book is 47.8 per cent compared to 49.0 per cent in 2011. Our major mortgage markets of Hong Kong, Singapore and Korea have an average LTV of less than 50 per cent. The proportion of the portfolio with average LTVs in excess of 100 per cent has declined from 0.8 per cent to 0.5 per cent. This has been primarily within the UAE due to improving economic conditions, such as job market stability. At 31 December average LTVs in Hong Kong and MESA regions were lower as new business was originated at lower LTVs and in Hong Kong the current book benefitted from an increase in property prices.

Group

	2012								
	Hong Kong	Singapore	Korea	Other Asia Pacific	India	Middle East & Other S Asia	Africa	Americas UK & Europe	Total
	\$million	\$million	\$million	\$million	\$million	\$million	\$million	\$million	\$million
Less than 50 per cent	75.4	52.5	49.0	37.9	55.8	24.1	30.0	1.1	54.4
50 per cent to 59 per cent	11.4	18.4	24.6	19.1	15.4	15.9	13.6	98.9	17.9
60 per cent to 69 per cent	6.1	13.8	18.5	21.0	12.7	17.3	20.0	-	14.4
70 per cent to 79 per cent	3.2	12.7	5.0	14.5	10.5	13.3	17.7	-	8.4
80 per cent to 89 per cent	3.2	2.6	2.0	5.9	4.7	8.0	16.7	-	3.6
90 per cent to 99 per cent	0.7	-	0.7	1.3	0.9	5.2	1.2	-	0.8
100 per cent and greater	-	-	0.2	0.3	-	16.2	0.8	-	0.5
Average Portfolio loan to value	41.2	46.1	48.9	54.1	45.6	72.1	50.1	53.9	47.8
Loans to individuals - Mortgages (\$ million)	21,441	14,278	16,686	15,574	2,284	1,629	256	1,221	73,369

	2011								
	Hong Kong	Singapore	Korea	Other Asia Pacific	India	Middle East & Other S Asia	Africa	Americas UK & Europe	Total
	\$million	\$million	\$million	\$million	\$million	\$million	\$million	\$million	\$million
Less than 50 per cent	60.2	54.7	50.5	31.6	53.8	19.2	27.5	1.8	49.0
50 per cent to 59 per cent	22.5	17.9	27.9	18.0	17.3	11.5	13.1	91.4	22.2
60 per cent to 69 per cent	9.2	15.8	16.4	19.6	13.9	14.9	17.7	6.8	15.0
70 per cent to 79 per cent	5.3	9.2	3.5	20.2	10.2	16.0	18.1	-	8.8
80 per cent to 89 per cent	1.7	2.4	1.1	8.9	3.4	7.4	17.9	-	3.4
90 per cent to 99 per cent	1.1	-	0.3	1.3	1.4	6.0	4.1	-	0.8
100 per cent and greater	-	-	0.3	0.4	-	25.0	1.6	-	0.8
Average Portfolio loan to value	45.5	45.0	47.2	57.3	45.8	82.1	71.7	57.8	49.0
Loans to individuals - Mortgages (\$ million)	19,245	12,076	20,835	15,905	2,062	1,486	216	749	72,574

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Risk review continued

Company

	2012						Total \$million
	Singapore	Other Asia Pacific	India	Middle East & Other S Asia	Africa	Americas UK & Europe	
	\$million	\$million	\$million	\$million	\$million	\$million	
Less than 50 per cent	52.5	37.9	55.8	24.1	30.0	1.1	54.4
50 per cent to 59 per cent	18.4	19.1	15.4	15.9	13.6	98.9	17.9
60 per cent to 69 per cent	13.8	21.0	12.7	17.3	20.0	-	14.4
70 per cent to 79 per cent	12.7	14.5	10.5	13.3	17.7	-	8.4
80 per cent to 89 per cent	2.6	5.9	4.7	8.0	16.7	-	3.6
90 per cent to 99 per cent	-	1.3	0.9	5.2	1.2	-	0.8
100 per cent and greater	-	0.3	-	16.2	0.8	-	0.5
Average Portfolio loan to value	46.1	54.1	45.6	72.1	50.1	53.9	47.8
Loans to individuals - Mortgages (\$ million)	14,278	203	2,228	1,585	15	547	18,856

	2011						Total \$million
	Singapore	Other Asia Pacific	India	Middle East & Other S Asia	Africa	Americas UK & Europe	
	\$million	\$million	\$million	\$million	\$million	\$million	
Less than 50 per cent	54.7	31.6	53.8	19.2	27.5	1.8	49.0
50 per cent to 59 per cent	17.9	18.0	17.3	11.5	13.1	91.4	22.2
60 per cent to 69 per cent	15.8	19.6	13.9	14.9	17.7	6.8	15.0
70 per cent to 79 per cent	9.2	20.2	10.2	16.0	18.1	-	8.8
80 per cent to 89 per cent	2.4	8.9	3.4	7.4	17.9	-	3.4
90 per cent to 99 per cent	-	1.3	1.4	6.0	4.1	-	0.8
100 per cent and greater	-	0.4	-	25.0	1.6	-	0.8
Average Portfolio loan to value	45.0	57.3	45.8	82.1	71.7	57.8	49.0
Loans to individuals - Mortgages (\$ million)	12,076	145	2,006	1,433	19	242	15,921

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Risk review continued

Problem credit management and provisioning

In Consumer Banking, where there are large numbers of small value loans, a primary indicator of potential impairment is delinquency. A loan is considered delinquent (past due) when the counterparty has failed to make a principal or interest payment when contractually due. However, not all delinquent loans (particularly those in the early stage of delinquency) will be impaired. For delinquency reporting purposes we follow industry standards, measuring delinquency as of 1, 30, 60, 90, 120 and 150 days past due. Accounts that are overdue by more than 30 days are more closely monitored and subject to specific collections processes.

Provisioning within Consumer Banking reflects the fact that the product portfolios (excluding medium-sized enterprises among SME customers and Private Banking customers) consist of a large number of comparatively small exposures. Mortgages are assessed for individual impairment on an account by account basis, but for other products it is impractical to monitor each delinquent loan individually and impairment is therefore assessed collectively.

For the main unsecured products and loans secured by automobiles, the entire outstanding amount is generally written off at 150 days past due. Unsecured consumer finance loans are similarly written off at 90 days past due. For secured loans (other than those secured by automobiles) individual impairment provisions (IIPs) are generally raised at either 150 days (Mortgages) or 90 days (Wealth Management) past due.

The provisions are based on the estimated present values of future cashflows, in particular those resulting from the realisation of security. Following such realisation any remaining loan will be written off. The days past due used to trigger write offs and IIPs are broadly driven by past experience, which shows that once an account reaches the relevant number of days past due, the probability of recovery (other than by realising security where appropriate) is low. For all products there are certain situations where the individual impairment provisioning or write off process is accelerated, such as in cases involving bankruptcy, customer fraud and death. Write off and IIPs are accelerated for all restructured accounts to 90 days past due (unsecured and automobile finance) and 120 days past due (secured) respectively. Individually impaired loans for Consumer Banking will therefore not equate to those reported as non-performing on page 42, because non-performing loans include all those over 90 days past due. This difference reflects the fact that, while experience shows that an element of delinquent loans are impaired it is not possible to identify which individual loans the impairment relates to until the delinquency is sufficiently prolonged that loss is almost certain, which, in the Group's experience, is generally around 150 days in Consumer Banking. Up to that point the inherent impairment is captured in portfolio impairment provision (PIP).

The PIP methodology provides for accounts for which an individual impairment provision has not been raised, either individually or collectively. PIP is raised on a portfolio basis for all products, and is set using expected loss rates, based on past experience supplemented by an assessment of specific factors affecting the relevant portfolio. These include an assessment of the impact of economic conditions, regulatory changes and portfolio characteristics such as delinquency trends and early alert trends. The methodology applies a larger provision against accounts that are delinquent but not yet considered impaired.

The procedures for managing problem credits for the Private Bank and the medium-sized enterprises in the SME segment of Consumer Banking are similar to those adopted in Wholesale Banking (described on page 53).

Loan Impairment

The total net impairment charge in Consumer Banking in 2012 increased by \$173 million, or 33 per cent, over 2011. In Korea, regulatory actions to curtail the household debt situation are driving a market-wide increase in the number of filings under the Personal Debt Rehabilitation Scheme (PDRS). Impairment charges also increased in Hong Kong, Singapore, Malaysia and Thailand in line with the growth in unsecured lending and maturing of certain personal loan products. However market conditions in both India and the Middle East have improved and as a result we have seen lower levels of provisioning in these regions.

There was a portfolio impairment release of \$5 million in 2012 (2011:\$10 million).

The table below sets out the Individual impairment provision by geography together with an analysis of the individual impairment charge and the movement in impaired provision by product type

Non-performing loans

The non-performing loans have increased by \$195 million compared to 2011 largely driven by Korea (\$182 million increase) in line with the increase in the delinquency as impacted by PDRS filings, partly offset by a decline in the UAE where credit quality has improved.

The cover ratio is a common metric used in considering trends in provisioning and non-performing loans. It should be noted, as explained above, a significant proportion of the PIP is intended to reflect losses inherent in the loan portfolio that is less than 90 days delinquent and hence recorded as performing. This metric should be considered in conjunction with other credit risk information including that contained in page 30.

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Risk review continued

The following tables set out the total non-performing loans for Consumer Banking:

Group

	2012								Total \$million
	Hong Kong \$million	Singapore \$million	Korea \$million	Other Asia Pacific \$million	India \$million	Middle East & Other S Asia \$million	Africa \$million	Americas UK & Europe \$million	
Loans and advances									
Gross non-performing	67	70	376	369	65	253	26	65	1,291
Individual impairment provisions ¹	(24)	(14)	(141)	(107)	(29)	(165)	(12)	(40)	(532)
Non-performing loans net of individual impairment provisions	43	56	235	262	36	88	14	25	759
Portfolio impairment provision									(435)
Net non-performing loans and advances									324
Cover ratio									75%

¹ The difference to total individual impairment provision at 31 December 2012 reflect provisions against restructured loans that are not included within non-performing loans as they have been performing for 180 days.

	2011								Total \$million
	Hong Kong \$million	Singapore \$million	Korea \$million	Other Asia Pacific \$million	India \$million	Middle East & Other S Asia \$million	Africa \$million	Americas UK & Europe \$million	
Loans and advances									
Gross non-performing	48	52	194	345	72	291	28	66	1,096
Individual impairment provisions ¹	(17)	(14)	(68)	(113)	(32)	(159)	(16)	(39)	(458)
Non-performing loans net of individual impairment provisions	31	38	126	232	40	132	12	27	638
Portfolio impairment provision									(434)
Net non-performing loans and advances									204
Cover ratio									81%

¹ The difference to total individual impairment provision at 31 December 2011 reflect provisions against restructured loans that are not included within non-performing loans as they have been performing for 180 days.

Company

	2012							Total \$million
	Singapore \$million	Other Asia Pacific \$million	India \$million	Middle East & Other S Asia \$million	Africa \$million	Americas UK & Europe \$million		
Loans and advances								
Gross non-performing	70	24	63	142	2	-	301	
Individual impairment provisions	(14)	(4)	(29)	(110)	(2)	-	(159)	
Non-performing loans net of individual impairment provisions	56	20	34	32	-	-	142	
Portfolio impairment provision							(114)	
Net non-performing loans and advances							28	
Cover ratio							91%	

	2011							Total \$million
	Singapore \$million	Other Asia Pacific \$million	India \$million	Middle East & Other S Asia \$million	Africa \$million	Americas UK & Europe \$million		
Loans and advances								
Gross non-performing	52	25	70	168	5	-	320	
Individual impairment provisions	(14)	(5)	(32)	(104)	(3)	-	(158)	
Non-performing loans net of individual impairment provisions	38	20	38	64	2	-	162	
Portfolio impairment provision							(131)	
Net non-performing loans and advances							31	
Cover ratio							90%	

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Risk review continued

Movement in non-performing loans

The following table sets out the movement in individually impaired loans renegotiated loans and the total non-performing loans. Renegotiated loans can be excluded from the definition of non-performing loans if certain specific criteria are met as explained on page 30.

Group

	2012			2011		
	Individually impaired loans	Renegotiated loans	Total non-performing loans	Individually impaired loans	Renegotiated loans	Total non-performing loans
	\$million	\$million	\$million	\$million	\$million	\$million
At 1 January	1,243	(147)	1,096	1,106	-	1,106
Exchange translation difference	11	(7)	4	(61)	4	(57)
Additions	706	(20)	686	755	(164)	591
Maturities and disposals	(495)	-	(495)	(557)	13	(544)
At 31 December	1,465	(174)	1,291	1,243	(147)	1,096

Company

	2012			2011		
	Individually impaired loans	Renegotiated loans	Total non-performing loans	Individually impaired loans	Renegotiated loans	Total non-performing loans
	\$million	\$million	\$million	\$million	\$million	\$million
At 1 January	307	13	320	384	-	384
Exchange translation difference	(2)	-	(2)	(36)	-	(36)
Additions	102	(10)	92	117	13	130
Maturities and disposals	(107)	(2)	(109)	(158)	-	(158)
At 31 December	300	1	301	307	13	320

The tables below sets out the net impairment charge by geography for Consumer Banking:

Group

	2012								
	Hong Kong	Singapore	Korea	Other Asia Pacific	India	Middle East & Other S Asia	Africa	Americas UK & Europe	Total
	\$million	\$million	\$million	\$million	\$million	\$million	\$million	\$million	\$million
Gross impairment charge	135	109	289	379	43	122	29	13	1,119
Recoveries/provisions no longer required	(44)	(49)	(72)	(166)	(19)	(52)	(12)	(3)	(417)
Net individual impairment charge	91	60	217	213	24	70	17	10	702
Portfolio impairment provision release									(5)
Net impairment charge									697

	2011								
	Hong Kong	Singapore	Korea	Other Asia Pacific	India	Middle East & Other S Asia	Africa	Americas UK & Europe	Total
	\$million	\$million	\$million	\$million	\$million	\$million	\$million	\$million	\$million
Gross impairment charge	92	51	178	304	58	166	27	8	884
Recoveries/provisions no longer required	(28)	(23)	(26)	(179)	(23)	(52)	(14)	(5)	(350)
Net individual impairment charge	64	28	152	125	35	114	13	3	534
Portfolio impairment provision release									(10)
Net impairment charge									524

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Risk review continued

Impairment provisions on loans and advances

The following table sets out the impairment provision on loans and advances as at 31 December by each principal category of borrower:

	Impairment provision held as at 01 January 2012	Net impairment charge 2012	Amounts written off/ other movements 2012	Impairment provision held as at 31 December 2012
	\$million	\$million	\$million	\$million
Loans to individuals				
Mortgages	137	14	(13)	138
Other	152	579	(500)	231
Small and medium enterprises	202	109	(107)	204
	491	702	(620)	573
Portfolio impairment provision	434	(5)	6	435
	925	697	(614)	1,008

	Impairment provision held as at 01 January 2011	Net impairment charge 2011	Amounts written off/ other movements 2011	Impairment provision held as at 31 December 2011
	\$million	\$million	\$million	\$million
Loans to individuals				
Mortgages	128	21	(12)	137
Other	180	412	(440)	152
Small and medium enterprises	198	101	(97)	202
	506	534	(549)	491
Portfolio impairment provision	451	(10)	(7)	434
	957	524	(556)	925

Wholesale Banking loan portfolio

The Wholesale Banking portfolio has increased by \$9.4 billion, or 6 per cent, compared to December 2011. Over two-thirds of the growth is due to Trade Finance and Corporate Finance as Wholesale Banking continues to deepen relationships with clients in core markets.

Customer assets growth has been broadly spread, with growth in Singapore, Korea, Africa and Americas, UK & Europe region partly offset by a decline in Hong Kong. Growth in Singapore region is mainly in trade loans and is concentrated in the Commerce and Manufacturing industry segments. Hong Kong loans fell primarily due to repayments of loans linked to acquisitions or IPOs. The growth in the America, UK & Europe region is as a result of a certain number of large ticket leveraged finance deals primarily relating to clients across our network.

Single borrower concentration risk has been mitigated by active distribution of assets to banks and institutional investors, some of which is achieved through credit-default swaps and synthetic risk transfer structures (see page 23).

The Wholesale Banking portfolio remains diversified across both geography and industry. There are no significant concentrations within the broad industry classifications of Manufacturing; Financing, insurance and business services; Commerce; or Transport, storage and communication. The largest sector exposure is to manufacturing which is spread across many sub-industries.

Exposure to bank counterparties at \$69.2 billion increased by \$2.6 billion compared to 31 December 2011 mainly in Korea, Hong Kong, on the back of RMB financing demand, and in Other Asia Pacific due to increased money market activity in China. The Group continues to be a net lender in the interbank money markets, particularly in geographies such as Hong Kong, Singapore, Other APR, MESA and America, UK & Europe.

Standard Chartered Bank

Risk review continued

Geographic analysis - Group

The following tables show loans and advances to customers by industry and by geography split:

2012									
	Hong Kong	Singapore	Korea	Other Asia Pacific	India	Middle East & Other S Asia	Africa	Americas UK & Europe	Total
	\$million	\$million	\$million	\$million	\$million	\$million	\$million	\$million	\$million
Agriculture, forestry and fishing	54	806	4	469	13	261	785	2,079	4,471
Construction	374	484	487	570	629	1,183	259	659	4,645
Commerce	4,983	11,773	665	4,297	815	4,428	768	6,229	33,958
Electricity, gas and water	510	407	-	561	7	366	251	2,723	4,825
Financing, insurance and business services	2,702	2,184	52	4,514	378	2,295	455	10,149	22,729
Governments	50	790	651	765	2	319	47	630	3,254
Mining and quarrying	700	1,938	-	1,059	394	778	602	9,495	14,966
Manufacturing	6,018	3,845	4,182	9,348	2,864	2,893	2,208	8,941	40,299
Commercial real estate	3,524	2,296	1,354	1,445	1,270	1,082	64	540	11,575
Transport, storage and communication	2,400	3,330	194	1,074	447	965	809	5,411	14,630
Other	200	468	121	234	8	102	79	167	1,379
	21,515	28,321	7,710	24,336	6,827	14,672	6,327	47,023	156,731
Portfolio impairment provision	(24)	(21)	(16)	(35)	(19)	(94)	(41)	(59)	(309)
Total loans and advances to customers¹	21,491	28,300	7,694	24,301	6,808	14,578	6,286	46,964	156,422
Total loans and advances to banks¹	19,356	6,205	4,633	8,720	571	3,172	378	26,119	69,154

2011									
	Hong Kong	Singapore	Korea	Other Asia Pacific ¹	India	Middle East & Other S Asia	Africa ¹	Americas UK & Europe	Total
	\$million	\$million	\$million	\$million	\$million	\$million	\$million	\$million	\$million
Agriculture, forestry and fishing	356	472	16	473	13	248	823	781	3,182
Construction	345	639	371	668	463	790	237	291	3,804
Commerce	4,858	7,645	439	3,826	547	4,067	851	5,999	28,232
Electricity, gas and water	523	908	-	665	7	300	300	1,771	4,474
Financing, insurance and business services	3,824	4,107	167	4,536	645	3,247	595	8,837	25,958
Governments	-	1,312	11	1,949	2	230	9	2,160	5,673
Mining and quarrying	1,019	1,325	-	841	353	300	333	8,103	12,274
Manufacturing	7,248	2,602	3,818	8,413	2,461	2,604	1,825	7,904	36,875
Commercial real estate	3,136	1,952	1,416	1,332	1,131	681	64	543	10,255
Transport, storage and communication	1,905	3,223	228	929	776	1,257	771	5,607	14,696
Other	218	630	180	258	9	233	194	143	1,865
	23,432	24,815	6,646	23,890	6,407	13,957	6,002	42,139	147,288
Portfolio impairment provision	(27)	(19)	(25)	(25)	(63)	(75)	(30)	(62)	(326)
Total loans and advances to customers¹	23,405	24,796	6,621	23,865	6,344	13,882	5,972	42,077	146,962
Total loans and advances to banks¹	19,097	7,301	3,777	8,305	362	2,426	638	24,642	66,548

¹ Amounts have been restated as explained in note 46.

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Risk review continued

Geographic analysis - Company

	2012						
	Singapore	Other Asia Pacific	India	Middle East & Other S Asia	Africa	Americas UK & Europe	Total
	\$million	\$million	\$million	\$million	\$million	\$million	\$million
Agriculture, forestry and fishing	806	178	13	221	512	2,079	3,809
Construction	484	137	617	1,183	36	659	3,116
Commerce	11,773	304	788	4,459	182	6,304	23,810
Electricity, gas and water	407	284	7	144	-	2,723	3,565
Financing, insurance and business services	2,184	1,195	342	2,346	40	10,074	16,181
Governments	790	60	-	318	-	630	1,798
Mining and quarrying	1,938	641	394	759	319	9,495	13,546
Manufacturing	3,845	1,426	2,759	2,178	457	8,755	19,420
Commercial real estate	2,296	253	1,229	1,082	64	540	5,464
Transport, storage and communication	3,330	313	435	860	31	4,674	9,643
Other	468	2	6	98	-	167	741
Wholesale Banking	28,321	4,793	6,590	13,648	1,641	46,100	101,093
Portfolio impairment provision	(21)	(7)	(17)	(84)	(3)	(60)	(192)
Total loans and advances to customers¹	28,300	4,786	6,573	13,564	1,638	46,040	100,901
Total loans and advances to banks¹	6,205	2,246	560	3,131	115	25,767	38,024

	2011						
	Singapore	Other Asia Pacific	India	Middle East & Other S Asia	Africa	Americas UK & Europe	Total
	\$million	\$million	\$million	\$million	\$million	\$million	\$million
Agriculture, forestry and fishing	472	218	13	208	586	781	2,278
Construction	639	300	442	790	93	291	2,555
Commerce	7,645	344	524	4,117	266	6,001	18,897
Electricity, gas and water	908	312	7	82	-	1,771	3,080
Financing, insurance and business services	4,107	731	625	3,214	59	8,837	17,573
Governments	1,312	120	-	230	-	2,160	3,822
Mining and quarrying	1,325	358	353	277	102	8,103	10,518
Manufacturing	2,602	1,124	2,368	1,893	309	7,895	16,191
Commercial real estate	1,952	73	1,111	681	63	543	4,423
Transport, storage and communication	3,223	358	776	1,143	20	5,459	10,979
Other	630	41	7	227	-	143	1,048
Wholesale Banking	24,815	3,979	6,226	12,862	1,498	41,984	91,364
Portfolio impairment provision	(19)	(6)	(62)	(64)	(2)	(63)	(216)
Total loans and advances to customers	24,796	3,973	6,164	12,798	1,496	41,921	91,148
Total loans and advances to banks	7,224	3,320	343	2,286	136	24,229	37,538

Standard Chartered Bank

Risk review continued

Maturity analysis - Group

The Wholesale Banking portfolio remains predominantly short-term, with 62 per cent (2011: 64 per cent) of loans and advances having a contractual maturity of one year or less driven by short-dated loans and trade finance transactions. The portfolio has seen a marginal extension in tenor as loans over five years have increased by \$2.7 billion primarily in Financing, Insurance and communication sectors.

The following tables show the contractual maturity of loans and advances to customers by each principal category of borrowers' business or industry.

	2012			Total \$million
	One year or less \$million	One to five years \$million	Over five years \$million	
Agriculture, forestry and fishing	3,307	1,000	164	4,471
Construction	3,205	1,269	171	4,645
Commerce	29,268	4,271	419	33,958
Electricity, gas and water	1,864	1,047	1,914	4,825
Financing, insurance and business services	14,021	7,641	1,067	22,729
Governments	2,873	303	78	3,254
Mining and quarrying	6,966	5,313	2,687	14,966
Manufacturing	27,061	11,410	1,828	40,299
Commercial real estate	4,195	6,859	521	11,575
Transport, storage and communication	3,921	7,031	3,678	14,630
Other	763	585	31	1,379
Wholesale Banking	97,444	46,729	12,558	156,731
Portfolio impairment provision				(309)
				156,422

	2011			Total \$million
	One year or less \$million	One to five years \$million	Over five years \$million	
Agriculture, forestry and fishing	2,607	468	107	3,182
Construction	2,300	1,366	138	3,804
Commerce	23,705	4,114	413	28,232
Electricity, gas and water	1,117	1,649	1,708	4,474
Financing, insurance and business services	16,797	8,818	343	25,958
Governments	4,301	1,372	-	5,673
Mining and quarrying	5,912	3,602	2,760	12,274
Manufacturing	25,704	9,380	1,791	36,875
Commercial real estate	4,146	5,785	324	10,255
Transport, storage and communication	7,267	5,160	2,269	14,696
Other	971	874	20	1,865
Wholesale Banking	94,827	42,588	9,873	147,288
Portfolio impairment provision				(326)
				146,962

Standard Chartered Bank

Risk review continued

Maturity Analysis – Company

The Wholesale Banking portfolio remains predominantly short-term, with 59 per cent (2011: 61 per cent) of loans and advances having a contractual maturity of one year or less.

The following tables show the contractual maturity of loans and advances to customers by each principal category of borrowers' business or industry.

	2012			
	One year or less	One to five years	Over five years	Total
	\$million	\$million	\$million	\$million
Agriculture, forestry and fishing	2,751	903	155	3,809
Construction	2,161	790	165	3,116
Commerce	20,783	2,713	314	23,810
Electricity, gas and water	1,065	615	1,885	3,565
Financing, insurance and business services	9,010	6,127	1,044	16,181
Governments	1,538	182	78	1,798
Mining and quarrying	5,853	5,065	2,628	13,546
Manufacturing	11,874	6,431	1,115	19,420
Commercial real estate	1,831	3,402	231	5,464
Transport, storage and communication	2,094	4,761	2,788	9,643
Other	294	437	10	741
Wholesale Banking	59,254	31,426	10,413	101,093
Portfolio impairment provision				(192)
				100,901

	2011			
	One year or less	One to five years	Over five years	Total
	\$million	\$million	\$million	\$million
Agriculture, forestry and fishing	1,878	296	104	2,278
Construction	1,409	1,011	135	2,555
Commerce	16,186	2,417	294	18,897
Electricity, gas and water	346	1,043	1,691	3,080
Financing, insurance and business services	10,320	6,999	254	17,573
Governments	2,688	1,134	-	3,822
Mining and quarrying	4,896	2,865	2,757	10,518
Manufacturing	10,472	4,554	1,165	16,191
Commercial real estate	1,660	2,714	49	4,423
Transport, storage and communication	5,647	3,542	1,790	10,979
Other	478	568	2	1,048
Wholesale Banking	55,980	27,143	8,241	91,364
Portfolio impairment provision				(216)
				91,148

Standard Chartered Bank

Risk review continued

Credit quality analysis - Group

The tables below sets out an analysis of the loans to customers and banks between those loans that are neither past due nor impaired, those that are past due but not individually impaired and those that are individually impaired by industry type and by geography.

Wholesale banking, the overall portfolio quality remains good and more than 94 per cent of the portfolio is neither past due nor individually impaired.

Neither past due nor impaired loans have increased by \$4.8 billion in line with portfolio growth, and is primarily concentrated within the Commerce and Manufacturing sectors and within credit grades 1-5.

Loans past due but not individually impaired increased by \$3.9 billion compared to 2011. Of this increase \$1.1 billion was in less than 30 days past due category and related to a small number of exposures in UAE (within Construction and Commerce), in Hong Kong (within Mining and Construction) and in Singapore (within Financing, insurance and business services). The remainder of the increase was in the 60 to 90 days past due category and related to the Financing, insurance and business services and Manufacturing sectors in the Americas, UK and Europe. As explained on page 27, a majority of these past due balances related to a small number of exposures and have since been either repaid or renegotiated shortly after the balance-sheet date.

Individually impaired loans increased by \$1.2 billion, mainly due to an increase in a small number of exposures in India and the UAE and this flowed into higher individual impairment provision of \$0.4 billion. Portfolio impairment provision declined by \$17 million primarily due to a release in India of provisions created in 2011 in respect of market uncertainties.

Loans to banks remains predominantly high quality and more than 99 percent of the portfolio is neither past due nor impaired.

	2012				2011			
	Neither past due nor individually impaired	Past due but not individually impaired	Individually impaired loans	Total	Neither past due nor individually impaired	Past due but not individually impaired	Individually impaired loans	Total
	\$million	\$million	\$million	\$million	\$million	\$million	\$million	\$million
Agriculture, forestry and fishing	4,364	54	92	4,510	3,089	29	104	3,222
Construction	4,175	309	237	4,721	3,703	40	129	3,872
Commerce	33,369	323	940	34,632	28,018	91	596	28,705
Electricity, gas and water	4,744	4	85	4,833	4,317	155	8	4,480
Financing, insurance and business services	19,115	2,640	1,139	22,894	25,168	74	883	26,125
Governments	3,254	-	-	3,254	5,673	-	-	5,673
Mining and quarrying	14,363	593	19	14,975	12,228	37	10	12,275
Manufacturing	38,932	748	1,191	40,871	36,075	274	1,077	37,426
Commercial real estate	11,403	38	158	11,599	9,991	107	181	10,279
Transport, storage and communication	14,241	43	543	14,827	14,410	77	249	14,736
Other	1,354	23	33	1,410	1,844	25	25	1,894
Wholesale Banking	149,314	4,775	4,437	158,526	144,516	909	3,262	148,687
Individual impairment provisions				(1,795)				(1,399)
Portfolio impairment provision				(309)				(326)
Total loans and advances to customers				156,422				146,962
Loans and advances to banks	68,947	3	309	69,259	66,325	75	232	66,632
Individual impairment provisions				(103)				(82)
Portfolio impairment provision				(2)				(2)
Total loans and advances to banks				69,154				66,548

Standard Chartered Bank

Risk review continued

Credit quality analysis - Company

The following table sets out the impairment provision on loans and advances as at 31 December by each principal category of borrowers business or industry:

	2012				2011			
	Neither past due nor individually impaired	Past due but not individually impaired	Individually impaired loans	Total	Neither past due nor individually impaired	Past due but not individually impaired	Individually impaired loans	Total
	\$million	\$million	\$million	\$million	\$million	\$million	\$million	\$million
Agriculture, forestry and fishing	3,723	53	52	3,828	2,235	5	51	2,291
Construction	2,840	147	176	3,163	2,470	38	92	2,600
Commerce	23,150	251	834	24,235	18,672	44	472	19,188
Electricity, gas and water	3,533	-	38	3,571	3,076	3	4	3,083
Financing, insurance and business services	12,814	2,469	1,058	16,341	16,885	7	842	17,734
Governments	1,798	-	-	1,798	3,822	-	-	3,822
Mining and quarrying	13,359	186	-	13,545	10,490	20	9	10,519
Manufacturing	18,602	471	640	19,713	15,835	80	576	16,491
Commercial real estate	5,363	-	107	5,470	4,221	97	115	4,433
Transport, storage and communication	9,344	2	476	9,822	10,807	1	196	11,004
Other	746	-	2	748	1,050	2	2	1,054
Wholesale Banking	95,272	3,579	3,383	102,234	89,563	297	2,359	92,219
Individual impairment provisions				(1,141)				(855)
Portfolio impairment provision				(192)				(216)
Total loans and advances to customers				100,901				91,148
Loans and advances to banks	37,909	1	139	38,049	37,472	13	58	37,543
Individual impairment provisions				(24)				(4)
Portfolio impairment provision				(1)				(1)
Total loans and advances to banks				38,024				37,538

Standard Chartered Bank

Risk review continued

Loans to banks

The table below sets out an analysis of the loans and advances to banks between those loans that are neither past due nor impaired, those that are past due but not individually impaired and those that are individually impaired by geography.

Group

	2012								
	Hong Kong \$million	Singapore \$million	Korea \$million	Other Asia Pacific \$million	India \$million	Middle East & Other S Asia \$million	Africa \$million	Americas UK & Europe \$million	Period End Total \$million
Neither past due nor individually impaired	19,349	6,205	4,633	8,635	570	3,076	378	26,101	68,947
Past due but not individually impaired loans	2	-	-	-	1	-	-	-	3
Individually impaired loans	5	-	-	164	-	97	-	43	309
Individual impairment provisions	-	-	-	(78)	-	-	-	(25)	(103)
Portfolio Impairment provisions	-	-	-	(1)	-	(1)	-	-	(2)
Total loans and advances	19,356	6,205	4,633	8,720	571	3,172	378	26,119	69,154

	2011								
	Hong Kong \$million	Singapore \$million	Korea \$million	Other Asia Pacific \$million	India \$million	Middle East & Other S Asia \$million	Africa \$million	Americas UK & Europe \$million	Period End Total \$million
Neither past due nor individually impaired	19,027	7,288	3,777	8,217	362	2,427	637	24,590	66,325
Past due but not individually impaired loans	62	13	-	-	-	-	-	-	75
Individually impaired loans	8	-	-	165	-	-	1	58	232
Individual impairment provisions	-	-	-	(76)	-	-	-	(6)	(82)
Portfolio Impairment provisions	-	-	-	(1)	-	(1)	-	-	(2)
Total loans and advances	19,097	7,301	3,777	8,305	362	2,426	638	24,642	66,548

Company

	2012						
	Singapore \$million	Other Asia Pacific \$million	India \$million	Middle East & Other S Asia \$million	Africa \$million	Americas UK & Europe \$million	Period End Total \$million
Neither past due nor individually impaired	6,205	2,246	559	3,035	115	25,749	37,909
Past due but not individually impaired loans	-	-	1	-	-	-	1
Individually impaired loans	-	-	-	97	-	42	139
Individual impairment provisions	-	-	-	-	-	(24)	(24)
Portfolio Impairment provision	-	-	-	(1)	-	-	(1)
Total loans and advances	6,205	2,246	560	3,131	115	25,767	38,024

	2011						
	Singapore \$million	Other Asia Pacific \$million	India \$million	Middle East & Other S Asia \$million	Africa \$million	Americas UK & Europe \$million	Period End Total \$million
Neither past due nor individually impaired	7,211	3,320	343	2,287	136	24,175	37,472
Past due but not individually impaired loans	13	-	-	-	-	-	13
Individually impaired loans	-	-	-	-	-	58	58
Individual impairment provisions	-	-	-	-	-	(4)	(4)
Portfolio impairment provision	-	-	-	(1)	-	-	(1)
Total loans and advances	7,224	3,320	343	2,286	136	24,229	37,538

Standard Chartered Bank

Risk review continued

The tables below set out an analysis of the loan to customers between those loans that are neither past due nor impaired, those that are past due but not individually impaired and those that are individually impaired by geography.

Group	2012								Total
	Hong Kong	Singapore	Korea	Other Asia Pacific	India	Middle East & Other S Asia	Africa	Americas UK & Europe	
	\$million	\$million	\$million	\$million	\$million	\$million	\$million	\$million	\$million
Neither past due nor individually impaired	20,674	28,036	7,554	23,806	6,186	12,697	6,212	44,149	149,314
Past due but not individually impaired loans	769	160	-	256	134	657	20	2,779	4,775
Individually impaired loans	122	199	261	524	748	2,326	132	125	4,437
Individual impairment provisions	(50)	(74)	(105)	(250)	(241)	(1,008)	(37)	(30)	(1,795)
Portfolio impairment provision	(24)	(21)	(16)	(35)	(19)	(94)	(41)	(59)	(309)
Total loans and advances	21,491	28,300	7,694	24,301	6,808	14,578	6,286	46,964	156,422

	2011								Total
	Hong Kong	Singapore	Korea	Other Asia Pacific	India	Middle East & Other S Asia	Africa	Americas UK & Europe	
	\$million	\$million	\$million	\$million	\$million	\$million	\$million	\$million	\$million
Neither past due nor individually impaired	23,244	24,752	6,511	23,654	6,130	12,439	5,818	41,968	144,516
Past due but not individually impaired loans	174	10	1	22	104	522	76	-	909
Individually impaired loans	75	114	202	462	249	1,775	154	231	3,262
Individual impairment provisions	(61)	(61)	(68)	(248)	(76)	(779)	(46)	(60)	(1,399)
Portfolio impairment provision	(27)	(19)	(25)	(25)	(63)	(75)	(30)	(62)	(326)
Total loans and advances	23,405	24,796	6,621	23,865	6,344	13,882	5,972	42,077	146,962

Company

	2012							Period End Total
	Singapore	Other Asia Pacific	India	Middle East & Other S Asia	Africa	Americas UK & Europe		
	\$million	\$million	\$million	\$million	\$million	\$million	\$million	
Neither past due nor individually impaired		28,036	4,705	5,950	11,722	1,632	43,227	95,272
Past due but not individually impaired loans		160	3	134	503	-	2,779	3,579
Individually impaired loans		199	197	747	2,103	12	125	3,383
Individual impairment provisions		(74)	(112)	(241)	(680)	(3)	(31)	(1,141)
Portfolio impairment provision		(21)	(7)	(17)	(84)	(3)	(60)	(192)
Total loans and advances		28,300	4,786	6,573	13,564	1,638	46,040	100,901

	2011							Period End Total
	Singapore	Other Asia Pacific	India	Middle East & Other S Asia	Africa	Americas UK & Europe		
	\$million	\$million	\$million	\$million	\$million	\$million	\$million	
Neither past due nor individually impaired		24,752	3,900	5,949	11,660	1,491	41,811	89,563
Past due but not individually impaired loans		10	2	104	180	1	-	297
Individually impaired loans		114	191	249	1,564	10	231	2,359
Individual impairment provisions		(61)	(114)	(76)	(542)	(4)	(58)	(855)
Portfolio impairment provision		(19)	(6)	(62)	(64)	(2)	(63)	(216)
Total loans and advances		24,796	3,973	6,164	12,798	1,496	41,921	91,148

Standard Chartered Bank

Risk review continued

Credit risk mitigation

Collateral held against Wholesale Banking exposures amounted to \$52 billion (2011: \$54 billion). Our underwriting standards encourage taking specific charges on assets 51 per cent of collateral held is physical assets or is property based, with the remainder held largely in investment securities.

Non-tangible collateral – such as guarantees and letters of credit – may also be held against corporate exposures although the financial effect of this type of collateral is less significant in terms of recoveries. However this type of collateral is considered when determining probability of default and other credit related factors.

Problem credit management and provisioning

Loans are classified as impaired and considered non-performing in line with definition on page 30 and where analysis and review indicates that full payment of either interest or principal is questionable, or as soon as payment of interest or principal is 90 days overdue. Impaired accounts are managed by our specialist recovery unit, GSAM, which is separate from our main businesses. Where any amount is considered irrecoverable, an individual impairment provision is raised. This provision is the difference between the loan carrying amount and the present value of estimated future cash flows.

The individual circumstances of each customer are taken into account when GSAM estimates future cash flow. All available sources, such as cash flow arising from operations, selling assets or subsidiaries, realising collateral or payments under guarantees, are considered. In any decision relating to the raising of provisions, we attempt to balance economic conditions, local knowledge and experience, and the results of independent asset reviews. Where it is considered that there is no realistic prospect of recovering a portion of an exposure against which an impairment provision has been raised, that amount will be written off. As with Consumer Banking, a PIP is held to cover the inherent risk of losses which, although not identified, are known through experience to be present in any loan portfolio. In Wholesale Banking, this is set with reference to historic loss rates and subjective factors such as the economic environment and the trends in key portfolio indicators. The PIP methodology provides for accounts for which an individual impairment provision has not been raised.

Loan Impairment

The individual impairment charge increased by \$212 million or 64 percent compared to 2011 which is in line with the increase in non-performing loans mentioned below in India and the UAE. Those arose primarily in the Commerce and transport, storage and communication sectors. Portfolio provisions were reduced in some markets in 2012 with a release of sector specific provisions in India. Consequently there was a net portfolio impairment release in 2012 of \$22 million compared to a \$24 million charge in 2011.

Non-performing loans

Gross non-performing loans in Wholesale Banking have increased by \$1.2 billion, or 40 per cent, since December 2011. These increases were primarily driven by a very small number of exposures in India and the UAE. The balance of non-performing loans not covered by individual impairment provisions represents the value of collateral held and the Group's estimate of the net outcome of any workout strategy. The cover ratio after taking into account collateral is 65 per cent (2011 : 72 per cent).

The cover ratio reflects the extent to which gross non-performing loans are covered by individual and portfolio impairment provisions and was 51 per cent at 31 December 2012, down from 58 per cent at 31 December 2011 largely due to the factors noted above.

The following tables set out the total non-performing loans to banks and customers for Wholesale Banking on the basis of the geographic regions to which the exposures relates to rather than the booking location :

Group

	2012								
	Hong Kong	Singapore	Korea	Other Asia Pacific	India	Middle East & Other S Asia	Africa	Americas UK & Europe	Total
	\$million	\$million	\$million	\$million	\$million	\$million	\$million	\$million	\$million
Loans and advances									
Gross non-performing	128	21	261	744	754	2,089	147	165	4,309
Individual impairment provisions ¹	(50)	(14)	(105)	(335)	(240)	(1,061)	(37)	(55)	(1,897)
Non-performing loans net of individual impairment provisions	78	7	156	409	514	1,028	110	110	2,412
Portfolio impairment provision									(311)
Net non-performing loans and advances									2,101
Cover ratio									51%

¹ The difference to total individual impairment provision at 31 December 2012 reflect provisions against restructured loans that are not included within non-performing loans as they have been performing for 180 days.

Standard Chartered Bank

Risk review continued

2011									
	Hong Kong	Singapore	Korea	Other Asia Pacific	India	Middle East & Other S Asia	Africa	Americas UK & Europe	Total
	\$million	\$million	\$million	\$million	\$million	\$million	\$million	\$million	\$million
Loans and advances									
Gross non-performing	83	18	202	773	260	1,476	146	129	3,087
Individual impairment provisions ¹	(61)	(4)	(68)	(325)	(80)	(811)	(45)	(65)	(1,459)
Non-performing loans net of individual impairment provisions	22	14	134	448	180	665	101	64	1,628
Portfolio impairment provision									(328)
Net non-performing loans and advances									1,300
Cover ratio									58%

¹ The difference to total individual impairment provision at 31 December 2011 reflect provisions against restructured loans that are not included within non-performing loans as they have been performing for 180 days.

Company

2012							
	Singapore	Other Asia Pacific	India	Middle East & Other S Asia	Africa	Americas UK & Europe	Total
	\$million	\$million	\$million	\$million	\$million	\$million	\$million
Loans and advances							
Gross non-performing	199	115	743	1,865	13	166	3,101
Individual impairment provisions	(74)	(79)	(240)	(713)	(3)	(55)	(1,164)
Non-performing loans net of individual impairment provisions	125	36	503	1,152	10	111	1,937
Portfolio impairment provision							(193)
Net non-performing loans and advances							1,744
Cover ratio							44%

2011							
	Singapore	Other Asia Pacific	India	Middle East & Other S Asia	Africa	Americas UK & Europe	Total
	\$million	\$million	\$million	\$million	\$million	\$million	\$million
Loans and advances							
Gross non-performing	18	192	255	1,265	11	293	2,034
Individual impairment provisions	(4)	(114)	(76)	(595)	(2)	(70)	(861)
Non-performing loans net of individual impairment provisions	14	78	179	670	9	223	1,173
Portfolio impairment provision							(216)
Net non-performing loans and advances							957
Cover ratio							53%

The table below sets out the net impairment charge by geography for Wholesale Banking:

Group

2012									
	Hong Kong	Singapore	Korea	Other Asia Pacific	India	Middle East & Other S Asia	Africa	Americas UK & Europe	Total
	\$million	\$million	\$million	\$million	\$million	\$million	\$million	\$million	\$million
Gross impairment charge	23	2	45	49	192	265	2	19	597
Recoveries/provisions no longer required	(5)	-	(9)	(20)	(7)	(1)	(2)	(8)	(52)
Net individual impairment charge/(credit)	18	2	36	29	185	264	-	11	545
Portfolio impairment provision charge									(22)
Net impairment charge									523
Other credit risk provisions									1
Total impairment									524

Standard Chartered Bank

Risk review continued

2011

	Hong Kong \$million	Singapore \$million	Korea \$million	Other Asia Pacific \$million	India \$million	Middle East & Other S Asia \$million	Africa \$million	Americas UK & Europe \$million	Total \$million
Gross impairment charge	19	21	36	29	40	229	8	-	382
Recoveries/provisions no longer required	(10)	-	(4)	(8)	(6)	(9)	(7)	(5)	(49)
Net individual impairment (credit)/charge	9	21	32	21	34	220	1	(5)	333
Portfolio impairment provision release									24
Net loan impairment charge									357
Other credit risk provisions									27
Total impairment									384

Impairment provisions on loans and advances

The following table sets out the impairment provision on loans and advances by each principal category of borrowers business or industry:

	Impairment provision held as at 01 January 2012 \$million	Net impairment charge 2012 \$million	Amounts written off/ other movements 2012 \$million	Impairment provision held as at 31 December 2012 \$million
Agriculture, forestry and fishing	40	-	(1)	39
Construction	68	19	(11)	76
Commerce	473	136	65	674
Electricity, gas and water	6	-	2	8
Financing, insurance and business services	167	118	(120)	165
Mining and quarrying	1	-	8	9
Manufacturing	551	100	(79)	572
Commercial real estate	24	-	-	24
Transport, storage and communication	40	162	(5)	197
Other	29	4	(2)	31
Individual impairment provision against loans and advances to customers	1,399	539	(143)	1,795
Portfolio impairment provision against loans and advances to customers	326	(22)	5	309
Total impairment provisions on loans and advances to customers	1,725	517	(138)	2,104
Individual impairment provision against loans and advances to banks	82	6	15	103
Portfolio impairment provision against loans and advances to banks	2	-	-	2
Total impairment provisions on loans and advances to banks	84	6	15	105

	Impairment provision held as at 01 January 2011 \$million	Net impairment charge 2011 \$million	Amounts written off/ other movements 2011 \$million	Impairment provision held as at 31 December 2011 \$million
Agriculture, forestry and fishing	42	-	(2)	40
Construction	57	5	6	68
Commerce	467	47	(41)	473
Electricity, gas and water	7	-	(1)	6
Financing, insurance and business services	120	81	(34)	167
Mining and quarrying	1	-	-	1
Manufacturing	558	181	(188)	551
Commercial real estate	23	-	1	24
Transport, storage and communication	23	7	10	40
Other	20	-	9	29
Individual impairment provision against loans and advances to customers	1,318	321	(240)	1,399
Portfolio impairment provision against loans and advances to customers	309	24	(7)	326
Total impairment provisions on loans and advances to customers	1,627	345	(247)	1,725
Individual impairment provision against loans and advances to banks	93	12	(23)	82
Portfolio impairment provision against loans and advances to banks	2	-	-	2
Total impairment provisions on loans and advances to banks	95	12	(23)	84

Standard Chartered Bank

Risk review continued

The following table set out the movement in individually impaired loans, those renegotiated loans excluded from non performing and the total non-performing loans:

Group

	2012			2011		
	Individually impaired loans	Renegotiated loans	Total non-performing loans	Individually impaired loans	Renegotiated loans	Total non-performing loans
	\$million	\$million	\$million	\$million	\$million	\$million
At 1 January	3,494	(407)	3,087	3,450		3,450
Exchange translation difference	(43)	(3)	(46)	(64)	1	(63)
Additions	1,709	(28)	1,681	517	(416)	101
Maturities and disposals	(414)	1	(413)	(409)	8	(401)
At 31 December	4,746	(437)	4,309	3,494	(407)	3,087

Company

	2012			2011		
	Individually impaired loans	Renegotiated loans	Total non-performing loans	Individually impaired loans	Renegotiated loans	Total non-performing loans
	\$million	\$million	\$million	\$million	\$million	\$million
At 1 January	2,417	(383)	2,034	2,348	-	2,348
Exchange translation difference	(36)	-	(36)	(53)	-	(53)
Additions	1,371	(38)	1,333	267	(383)	(116)
Maturities and disposals	(230)	-	(230)	(145)	-	(145)
At 31 December	3,522	(421)	3,101	2,417	(383)	2,034

Standard Chartered Bank

Risk review continued

Debt securities and treasury bills

Debt securities and treasury bills are analysed as follows:

Group

	2012			2011		
	Debt securities \$million	Treasury bills \$million	Total \$million	Debt securities \$million	Treasury bills \$million	Total \$million
Net impaired securities						
Impaired securities	404	-	404	432	-	432
Impairment	(159)	-	(159)	(187)	-	(187)
	245	-	245	245	-	245
Securities neither past due nor impaired						
AAA	20,698	6,516	27,214	15,164	3,285	18,449
AA- to AA+	20,232	6,594	26,826	18,806	7,959	26,765
A- to A+	23,570	10,694	34,264	23,850	8,712	32,562
BBB- to BBB+	10,244	3,949	14,193	7,090	4,396	11,486
Lower than BBB-	3,027	502	3,529	2,435	1,347	3,782
Unrated	6,471	1,571	8,042	6,540	590	7,130
	84,242	29,826	114,068	73,885	26,289	100,174
	84,487	29,826	114,313	74,130	26,289	100,419
Of which:						
Assets at fair value ¹						
Trading	14,890	2,955	17,845	13,025	4,609	17,634
Designated at fair value	333	-	333	45	-	45
Available-for-sale	65,413	26,871	92,284	55,567	21,680	77,247
	80,636	29,826	110,462	68,637	26,289	94,926
Assets at amortised cost ¹						
Loans and receivables	3,851	-	3,851	5,475	-	5,475
Held-to-maturity	-	-	-	18	-	18
	3,851	-	3,851	5,493	-	5,493
	84,487	29,826	114,313	74,130	26,289	100,419

¹ See note 15, 16 and 21 of the financial statements for further details.

The provision for impairment has declined due to partial release of provision relating to a bond investment in India. The movement in impairment provisions for securities classified as loans and receivables is set out in note 21 to the financial statements.

The above table also analyses debt securities and treasury bills that are neither past due nor impaired by external credit rating. The standard credit ratings used by the Group are those used by Standard & Poor's or their equivalent. Debt securities held that have a short-term rating are reported against the long-term rating of the issuer. For securities that are unrated, the Group applies an internal credit rating as described under credit rating and measurement on page 20.

Debt securities in the AAA rating category increased by \$5.5 billion to \$20.7 billion in 2012 mainly due to an increase in the UK liquid asset buffer requirements.

Unrated securities primarily relate to corporate issues. Using internal credit ratings \$7,208 million (2011: \$6,254 million) of these securities are considered to be equivalent to investment grade.

Standard Chartered Bank

Risk review continued

Company

	2012			2011		
	Debt securities \$million	Treasury bills \$million	Total \$million	Debt securities \$million	Treasury bills \$million	Total \$million
Net impaired securities						
Impaired securities	137	-	137	144	-	144
Impairment provisions	(128)	-	(128)	(132)	-	(132)
	9	-	9	12	-	12
Securities neither past due nor impaired						
AAA	17,800	6,289	24,089	12,809	3,285	16,094
AA- to AA+	7,619	107	7,726	7,505	324	7,829
A- to A+	3,423	-	3,423	5,325	165	5,490
BBB- to BBB+	7,389	2,690	10,079	4,687	3,375	8,062
Lower than BBB-	1,792	92	1,884	1,755	147	1,902
Unrated	4,946	348	5,294	5,318	406	5,724
	42,969	9,526	52,495	37,399	7,702	45,101
	42,978	9,526	52,504	37,411	7,702	45,113
Of which:						
Assets at fair value ¹						
Trading	8,925	721	9,646	6,476	894	7,370
Available-for-sale	31,782	8,805	40,587	27,095	6,808	33,903
	40,707	9,526	50,233	33,571	7,702	41,273
Assets at amortised cost ¹						
Loans and receivables	2,271	-	2,271	3,840	-	3,840
	2,271	-	2,271	3,840	-	3,840
	42,978	9,526	52,504	37,411	7,702	45,113

¹ See note 15, 16 and 21 of the financial statements for further details.

Using internal credit ratings, \$4,627 million (2011: \$5,724 million) of these securities are considered to be investment grade.

Standard Chartered Bank

Risk review continued

Asset backed securities

Total exposures to asset backed securities

	31 December 2012				31 December 2011			
	Percentage of notional value of Portfolio	Notional \$million	Carrying value \$million	Fair value ¹ \$million	Percentage of notional value of Portfolio	Notional \$million	Carrying value \$million	Fair value ¹ \$million
Residential Mortgage Backed Securities (RMBS)	46%	2,160	2,114	2,120	32%	769	688	667
Collateralised Debt Obligations (CDOs)	5%	260	203	219	13%	308	241	244
Commercial Mortgage Backed Securities (CMBS)	10%	478	355	351	26%	633	488	465
Other asset backed securities (Other ABS)	39%	1,869	1,847	1,861	29%	712	679	694
	100%	4,767	4,519	4,551	100%	2,422	2,096	2,070
Of which included within:								
Financial assets held at fair value through profit or loss	4%	190	191	191	6%	132	130	130
Investment securities - available-for-sale	61%	2,905	2,786	2,786	22%	538	379	379
Investment securities - loans and receivables	35%	1,672	1,542	1,574	72%	1,752	1,587	1,561
	100%	4,767	4,519	4,551	100%	2,422	2,096	2,070

¹ Fair value reflects the value of the entire portfolio, including assets redesignated to loans and receivables.

The carrying value of Asset Backed Securities (ABS) represents 0.7 per cent (2011: 0.3 per cent) of our total assets.

The Group has an existing portfolio of ABS which it reclassified from trading and available for sale to loans and receivables with effect from 1 July 2008. No assets have been reclassified since 2008. This portfolio has been gradually managed down since 2010. The carrying value and fair value for this part of the portfolio were \$0.97 billion and \$1.0 billion respectively as at the end of 2012. Note 15 to the financial statements provides details of the remaining balance of those assets reclassified in 2008.

The Group has also extended its investment to a limited amount of trading in ABS and has also acquired an additional \$2.3 billion of ABS during 2012 for liquidity reasons. This is classified as available for sale and primarily related to high quality RMBS assets with an average credit grade of AAA. The credit quality of the asset backed securities portfolio remains strong. With the exception of those securities subject to an impairment charge, over 90 per cent of the overall portfolio is rated A- or better, and 61 per cent of the overall portfolio is rated as AAA. The portfolio is broadly diversified across asset classes and geographies, with an average credit grade of AA.

The fair value of the entire portfolio is \$32 million higher than the carrying value at 31 December 2012 (2011: \$26 million lower), benefiting from both some redemptions and a recovery in market prices in certain asset classes.

Financial statement impact of asset backed securities

	Available-for-sale \$million	Loans and receivables \$million	Total \$million
31 December 2012			
Charge to available-for-sale reserves	(3)	-	(3)
Credit to the profit and loss account	5	-	5
31 December 2011			
Credit to available-for-sale reserves	16	-	16
Charge to the profit and loss account	(9)	(7)	(16)

Standard Chartered Bank

Risk review continued

Selected European country exposures – Group

The following tables summarise the Group's direct exposure (both on and off balance sheet) to certain specific countries within the eurozone that have been identified on the basis of their higher bond yields, higher sovereign debt to GDP ratio and external credit ratings compared with the rest of the eurozone.

Total gross exposure represents the amount outstanding on the balance sheet (including any accrued interest but before provisions) and positive mark-to-market amounts on derivatives before netting. To the extent gross exposure does not represent the maximum exposure to loss this is disclosed separately. Exposures are assigned to a country based on the country of incorporation of the counterparty as at 31 December 2012.

The Group has no direct sovereign exposure (as defined by the European Banking Authority) to the eurozone countries of Greece, Ireland, Italy, Portugal and Spain (GIIPS) and only \$0.9 billion direct sovereign exposure to other eurozone countries. The Group's non-sovereign exposure to GIIPS is \$3.5 billion (\$2.3 billion after collateral and netting) and \$47.2 billion (\$32.6 billion after collateral and netting) to the remainder of the eurozone. The substantial majority of the Group's total gross GIIPS exposure has a tenor of less than five years, with approximately 30 per cent having a tenor of less than one year. The Group has no direct sovereign exposure and \$263 million (2011: \$281 million) of non-sovereign exposure (after collateral and netting) to Cyprus. This exposure primarily consists of balances with corporate.

The exit of one or more countries from the eurozone or ultimately its dissolution could potentially lead to significant market dislocation, the extent of which is difficult to predict. Any such exit or dissolution, and the redenomination of formerly euro-denominated rights and obligations in replacement national currencies would cause significant uncertainty in any exiting country, whether sovereign or otherwise. Such events are also likely to be accompanied by the imposition of capital, exchange and similar controls. While the Group has limited eurozone exposure as disclosed above, the Group's earnings could be impacted by the general market disruption if such events should occur. We monitor the situation closely and we have prepared contingency plans to respond to a range of potential scenarios, including the possibility of currency redenomination. Local assets and liability positions are carefully monitored by in-country asset and liability and risk committees with appropriate oversight by GALCO and GRC at the Group level.

Country	2012					Total \$million
	Greece \$million	Ireland \$million	Italy \$million	Portugal \$million	Spain \$million	
Direct sovereign exposure	-	-	-	-	-	-
Banks	2	918	600	1	281	1,802
Other financial institutions	-	1,331	9	-	-	1,340
Other corporate	29	173	65	20	74	361
Total gross exposure	31	2,422	674	21	355	3,503
Direct sovereign exposure	-	-	-	-	-	-
Banks	-	(914) ¹	(55)	-	(130)	(1,099)
Other financial institutions	-	(78) ²	(9)	-	-	(87)
Other corporate	(2)	(39)	-	-	(4)	(45)
Total collateral/netting	(2)	(1,031)	(64)	-	(134)	(1,231)
Direct sovereign exposure	-	-	-	-	-	-
Banks	2	4 ¹	545	1	151	703
Other financial institutions	-	1,253 ²	-	-	-	1,253
Other corporate	27	134	65	20	70	316
Total net exposure	29	1,391	610	21	221	2,272

¹ This represents a single exposure, which is fully guaranteed by its US parent company.

² This represents a single exposure which is part of a wider structured finance transaction and is unaffected by Irish economic risk.

Standard Chartered Bank

Risk review continued

Selected European country exposures – Group continued

Country	2011					Total \$million
	Greece \$million	Ireland \$million	Italy \$million	Portugal \$million	Spain \$million	
Direct sovereign exposure	-	-	-	-	-	-
Banks	5	1,143	411	121	401	2,081
Other financial institutions	-	752	4	-	16	772
Other corporate	42	47	208	23	55	375
Total gross exposure	47	1,942	623	144	472	3,228
Direct sovereign exposure	-	-	-	-	-	-
Banks	-	(1,136)	(29)	-	(196)	(1,361)
Other financial institutions	-	-	(4)	-	-	(4)
Other corporate	(5)	(43)	(2)	-	-	(50)
Total collateral/netting	(5)	(1,179)	(35)	-	(196)	(1,415)
Direct sovereign exposure	-	-	-	-	-	-
Banks	5	7 ¹	382	121	205	720
Other financial institutions	-	752 ²	-	-	16	768
Other corporate	37	4	206	23	55	325
Total net exposure	42	763	588	144	276	1,813

¹ This represents a single exposure, which is fully guaranteed by its US parent company.

² This represents a single exposure which is part of a wider structured finance transaction and is unaffected by Irish economic risk.

Standard Chartered Bank

Risk review continued

Selected European country exposures – Company

The Company has no direct sovereign exposure to GIIPS and only \$0.2 billion direct sovereign exposure to other eurozone countries.

The Company's direct non-sovereign exposures to GIIPS is \$3.2 billion (\$2 billion after collateral and netting). Non-sovereign exposure to other eurozone countries is \$29.1 billion after collateral and netting, and primarily relates to France, Germany and the Netherlands.

Country	2012					Total \$million
	Greece \$million	Ireland \$million	Italy \$million	Portugal \$million	Spain \$million	
Direct sovereign exposure	-	-	-	-	-	-
Banks	2	918	408	-	273	1,601
Other financial institutions	-	1,331	9	-	-	1,340
Other corporate	27	84	65	20	39	235
Total gross exposure	29	2,333	482	20	312	3,176
Direct sovereign exposure	-	-	-	-	-	-
Banks	-	(914) ¹	(55)	-	(130)	(1,099)
Other financial institutions	-	(78) ²	(9)	-	-	(87)
Other corporate	-	(2)	-	-	(3)	(5)
Total collateral/netting	-	(994)	(64)	-	(133)	(1,191)
Direct sovereign exposure	-	-	-	-	-	-
Banks	2	4 ¹	353	-	143	502
Other financial institutions	-	1,253 ²	-	-	-	1,253
Other corporate	27	82	65	20	36	230
Total net exposure	29	1,339	418	20	179	1,985

¹ This represents a single exposure, which is fully guaranteed by its US parent company.

² This represents a single exposure which is part of a wider structured finance transaction and is unaffected by Irish sovereign risk.

Country	2011					Total \$million
	Greece \$million	Ireland \$million	Italy \$million	Portugal \$million	Spain \$million	
Direct sovereign exposure	-	-	-	-	-	-
Banks	5	1,143	243	119	392	1,902
Other financial institutions	-	752	4	-	13	769
Other corporate	42	47	208	23	25	345
Total gross exposure	47	1,942	455	142	430	3,016
Direct sovereign exposure	-	-	-	-	-	-
Banks	-	(1,136)	(29)	-	(196)	(1,361)
Other financial institutions	-	-	(4)	-	-	(4)
Other corporate	(5)	(43)	(2)	-	-	(50)
Total collateral/netting	(5)	(1,179)	(35)	-	(196)	(1,415)
Direct sovereign exposure	-	-	-	-	-	-
Banks	5	7 ¹	214	119	196	541
Other financial institutions	-	752 ²	-	-	16	768
Other corporate	37	4	206	23	25	295
Total net exposure	42	763	420	142	237	1,604

¹ This represents a single exposure, which is fully guaranteed by its US parent company.

² This represents a single exposure which is part of a wider structured finance transaction and is unaffected by Irish sovereign risk.

Standard Chartered Bank

Risk review continued

Selected European country exposures – Company continued

The Group's exposure to GIIPS at 31 December 2012 is analysed by financial asset as follows:

	2012					Total \$million
	Greece \$million	Ireland \$million	Italy \$million	Portugal \$million	Spain \$million	
Loans and advances						
Loans and receivables	20	91	301	20	26	458
Held at fair value through profit or loss	-	-	17	-	-	17
Total gross loans and advances	20	91	318	20	26	475
Collateral held against loans and advances	(2)	(38)	(24)	-	(4)	(68)
Total net loans and advances	18	53	294	20	22	407
Debt securities						
Trading						
Designated at fair value	-	-	-	-	41	41
Available-for-sale	-	51	-	-	78	129
Loans and receivables	-	-	-	-	-	-
Total gross debt securities	-	51	-	-	119	170
Collateral held against debt securities	-	-	-	-	-	-
Total net debt securities	-	51	-	-	119	170
Derivatives						
Gross exposure	2	1,025	44	-	137	1,208
Collateral/netting ¹	-	(992)	(39)	-	(132)	(1,163)
Total derivatives	2	33	5	-	5	45
Contingent liabilities and commitments	9	1,254	311	1	75	1,650
Total net exposure (on and off balance sheet)¹	29	1,391	610	21	221	2,272
Total balance sheet net exposure	22	1,167	362	20	282	1,853

¹ Based on ISDA netting

Standard Chartered Bank

Risk review continued

The Company's exposure to GIIPS at 31 December 2012 is analysed by financial asset as follows:

	2012					Total \$million
	Greece \$million	Ireland \$million	Italy \$million	Portugal \$million	Spain \$million	
Loans and advances						
Loans and receivables	18	1	284	20	23	346
Held at fair value through profit or loss	-	-	17	-	-	17
Total gross loans and advances	18	1	301	20	23	363
Collateral held against loans and advances	-	-	(25)	-	(4)	(29)
Total net loans and advances	18	1	276	20	19	334
Debt securities						
Trading						
Designated at Fair value	-	-	-	-	6	6
Available-for-sale	-	51	-	-	78	129
Loans and receivables	-	-	-	-	-	-
Total gross debt securities	-	51	-	-	84	135
Collateral held against debt securities	-	-	-	-	-	-
Total net debt securities	-	51	-	-	84	135
Derivatives						
Gross exposure	2	1,025	4	-	136	1,167
Collateral/netting ¹	-	(992)	-	-	(130)	(1,122)
Total derivatives	2	33	4	-	6	45
Contingent liabilities and commitments	9	1,254	138	-	70	1,471
Total net exposure (on and off balance sheet)¹	29	1,339	418	20	179	1,985
Total balance sheet net exposure	20	1,077	305	20	243	1,665

¹ Based on ISDA netting

Standard Chartered Bank

Risk review continued

Other selected eurozone countries - Group

A summary analysis of the Group's exposure to France, Germany, the Netherlands and Luxembourg is also provided as these countries are considered to have significant sovereign debt exposure to GIIPS.

	France \$million	Germany \$million	Netherlands \$million	Luxembourg \$million	Total \$million
Direct sovereign exposure	236	443	86	-	765
Banks	2,712	11,765	4,712	1,097	20,286
Other financial institutions	147	-	333	893	1,373
Other corporate	643	601	7,069	604	8,917
Total net exposure at 31 December 2012	3,738	12,809	12,200	2,594	31,341
Total net exposure at 31 December 2011	4,900	7,665	7,831	1,445	21,841

The Group's lending to these selected eurozone countries primarily takes the form of repurchase agreements, inter-bank loans and bonds. The substantial majority of the Group's total gross exposures to these selected countries have a tenor of less than three years, with over 67 per cent having a tenor of less than one year. The Group's exposure in Germany is primarily with the central bank.

Other than all these specifically identified countries, the Group's residual net exposure to the eurozone is \$2.2 billion, which primarily comprises bonds and export structured financing to banks and corporates.

Other selected eurozone countries - Company

A summary analysis of the Company's exposure to France, Germany, the Netherlands and Luxembourg is also provided as these countries are considered to have significant sovereign debt exposure to GIIPS.

	France \$million	Germany \$million	Netherlands \$million	Luxembourg \$million	Total \$million
Direct sovereign exposure	236	12	-	-	248
Banks	1,659	11,638	3,985	1,084	18,366
Other financial institutions	88	-	204	893	1,185
Other corporate	395	601	5,989	525	7,510
Total net exposure at 31 December 2012	2,378	12,251	10,178	2,502	27,309
Total net exposure at 31 December 2011	4,900	7,665	7,831	1,445	21,841

The Company's lending to these selected eurozone countries primarily takes the form of repurchase agreements, inter-bank loans and bonds. The substantial majority of the Group's total gross exposures to these selected countries have a tenor of less than three years, with over 67 per cent having a tenor of less than one year.

Other than all these specifically identified countries, the Group's residual net exposure to the eurozone is \$2.2 billion, which primarily comprises bonds and export structured financing to banks and corporates.

Standard Chartered Bank

Risk review continued

Country cross-border risk

Country cross-border risk is the risk that we will be unable to obtain payment from our customers or third parties on their contractual obligations as a result of certain actions taken by foreign governments, chiefly relating to convertibility and transferability of foreign currency.

The GRC is responsible for our country cross-border risk limits and delegates the setting and management of country limits to the Group Country Risk function.

The business and country chief executive officers manage exposures within these limits and policies. Countries designated as higher risk are subject to increased central monitoring.

Cross-border assets comprise loans and advances, interest-bearing deposits with other banks, trade and other bills, acceptances, amounts receivable under finance leases, derivatives, certificates of deposit and other negotiable paper, investment securities and formal commitments where the counterparty is resident in a country other than where the assets are recorded. Cross-border assets also include exposures to local residents denominated in currencies other than the local currency. Cross-border exposure also includes the value of commodity, aircraft and shipping assets owned by the Group that are held in a given country.

Our cross-border exposure to China, Hong Kong, India, Singapore, Indonesia and South Korea has risen further in 2012, reflecting our business focus and continued expansion in our core countries. Changes in the pace of economic activity is reflected in the growth of cross-border exposure for certain territories.

Growth in our business in China and Hong Kong continued to drive increases in cross-border exposure. Changes in exposures to both countries also reflect an overall reduction in the placement of surplus liquidity in China in the second half of the year and an increase in surplus liquidity placements in the US.

Cross border exposure in Indonesia grew strongly reflecting the opportunities in this market for the Group as whole, and for our joint venture, Permata. Customer demand for US dollar loans, principally from local corporate customers, remained buoyant, and there were significant transactions for acquisition financing.

South Korea has seen a reduction in exposures greater than one year and an increase in exposures of one year or less. This reflects a change of business mix from offshore funded term loans to local short term trade finance.

Cross-border exposure to countries in which we do not have a major presence predominantly relates to short-dated money market activities, and some global corporate business for customers with interests in our footprint. This explains our significant exposure in the US and Switzerland. Growth in US exposure was driven by surplus liquidity flowing into the US and being placed with the Federal Reserve Bank, other US institutions and in short term US issued instruments.

The table below, which is based on our internal cross-border country risk reporting requirements, shows cross-border exposures that exceed one per cent of total assets.

	2012			2011		
	Less than one year \$million	More than one year \$million	Total \$million	Less than one year \$million	More than one year \$million	Total \$million
China	23,809	11,783	35,592	24,351	10,497	34,848
India	12,230	18,200	30,430	12,061	16,904	28,965
US	22,485	6,730	29,215	17,581	4,728	22,309
Hong Kong	18,096	8,458	26,554	16,796	4,586	21,382
Singapore	16,561	5,508	22,069	13,372	5,158	18,530
United Arab Emirates	6,580	11,293	17,873	6,691	10,687	17,378
South Korea	9,696	6,693	16,389	6,931	7,138	14,069
Indonesia	5,688	4,758	10,446	3,949	3,395	7,344
Switzerland	5,050	4,983	10,033	4,897	3,939	8,836

Standard Chartered Bank

Risk review continued

Market risk

We recognise market risk as the potential for loss of earnings or economic value due to adverse changes in financial market rates or prices. Our exposure to market risk arises principally from customer-driven transactions. The objective of our market risk policies and processes is to obtain the best balance of risk and return whilst meeting customers' requirements.

The primary categories of market risk for Standard Chartered are:

- interest rate risk: arising from changes in yield curves, credit spreads and implied volatilities on interest rate options;
- currency exchange rate risk: arising from changes in exchange rates and implied volatilities on foreign exchange options;
- commodity price risk: arising from changes in commodity prices and commodity option implied volatilities; covering energy, precious metals, base metals and agriculture;
- equity price risk: arising from changes in the prices of equities, equity indices, equity baskets and implied volatilities on related options.

Market risk governance

The GRC approves our market risk appetite taking account of market volatility, the range of products and asset classes, business volumes and transaction sizes.

The Group Market Risk Committee (GMRC), under authority delegated by the GRC, is responsible for setting VaR and stress loss triggers for market risk within our risk appetite. The GMRC is also responsible for policies and other standards for the control of market risk and overseeing their effective implementation. These policies cover both trading and non-trading books of the Group. The trading book is defined as per the FSA Handbook's Prudential Sourcebook for Banks, Building Societies and Investment Firms (BIPRU). This is more restrictive than the broader definition within IAS 39 'Financial Instruments: Recognition and Measurement', as the FSA only permits certain types of financial instruments or arrangements to be included within the trading book. Limits by location and portfolio are proposed by the businesses within the terms of agreed policy.

Group Market Risk (GMR) approves the limits within delegated authorities and monitors exposures against these limits. Additional limits are placed on specific instruments and position concentrations where appropriate. Sensitivity measures are used in addition to VaR as risk management tools. For example, interest rate sensitivity is measured in terms of exposure to a one basis point increase in yields, whereas foreign exchange, commodity and equity sensitivities are measured in terms of the underlying values or amounts involved. Option risks are controlled through revaluation limits on underlying price and volatility shifts, limits on volatility risk and other variables that determine the option's value.

Value at Risk

We measure the risk of losses arising from future potential adverse movements in market rates, prices and volatilities using a VaR methodology. VaR, in general, is a quantitative measure of market risk that applies recent historical market conditions to estimate the potential future loss in market value that will not be exceeded in a set time period at a set statistical confidence level. VaR provides a consistent measure that can be applied across trading businesses and products over time and can be set against actual daily trading profit and loss outcome.

VaR is calculated for expected movements over a minimum of one business day and to a confidence level of 97.5 per cent. This confidence level suggests that potential daily losses, in excess of the VaR measure, are likely to be experienced six times per year.

We apply two VaR methodologies:

- historical simulation: involves the revaluation of all existing positions to reflect the effect of historically observed changes in market risk factors on the valuation of the current portfolio. This approach is applied for general market risk factors and from the fourth quarter of 2012 has been extended to cover also the majority of specific (credit spread) risk VaR.
- Monte Carlo simulation: this methodology is similar to historical simulation but with considerably more input risk factor observations. These are generated by random sampling techniques, but the results retain the essential variability and correlations of historically observed risk factor changes. This approach is now applied for some of the specific (credit spread) risk VaR in relation to idiosyncratic exposures in credit markets.

In both methods an historical observation period of one year is chosen and applied.

VaR is calculated as our exposure as at the close of business, generally London time. Intra-day risk levels may vary from those reported at the end of the day.

Back testing

To assess their predictive power, VaR models are back tested against actual results. In 2012 there have been no exceptions in the regulatory back testing, compared with four in 2011. This is within the 'green zone' applied internationally to internal models by bank supervisors, and implies that model reliability is statistically greater than 95 per cent.

Stress testing

Losses beyond the confidence interval are not captured by a VaR calculation, which therefore gives no indication of the size of unexpected losses in these situations.

GMR complements the VaR measurement by weekly stress testing of market risk exposures to highlight the potential risk that may arise from extreme market events that are rare but plausible.

Standard Chartered Bank

Risk review continued

Market risk continued

Stress testing is an integral part of the market risk management framework and considers both historical market events and forward-looking scenarios. A consistent stress testing methodology is applied to trading and non-trading books. The stress testing methodology assumes that scope for management action would be limited during a stress event, reflecting the decrease in market liquidity that often occurs.

Stress scenarios are regularly updated to reflect changes in risk profile and economic events. The GMRC has responsibility for reviewing stress exposures and, where necessary, enforcing reductions in overall market risk exposure. The GRC considers the results of stress tests as part of its supervision of risk appetite.

Regular stress test scenarios are applied to interest rates, credit spreads, exchange rates, commodity prices and equity prices. This covers all asset classes in the Financial Markets banking and trading books.

Ad hoc scenarios are also prepared reflecting specific market conditions and for particular concentrations of risk that arise within the businesses.

Market risk changes

Total average VaR in 2012 was 35 per cent higher than 2011 in line with increases in the market risk positions.

Further standardisation of VaR methodology with the implementation of historical simulation VaR for specific (credit spread) risk from 5 October 2012 permitted improved VaR aggregation but also contributed to subsequent increases in VaR for credit sensitive businesses. The impact was greatest at the Group Level with a rise of \$10.6 million in Total VaR on 5 October. The corresponding increase in trading book interest rate VaR was \$1.0 million and non-trading book interest rate VaR was \$4.7 million.

For 2012 as a whole, non-trading book average VaR was 41 per cent higher than 2011, with increases in both interest rate and equity risk. The increase in non-trading book interest VaR was mainly due to increased holdings of available-for-sale securities, primarily held as liquid asset buffers and changes in VaR methodology as described above. The increase in non-trading book equity risk VaR was due primarily to increased holdings in listed private equities.

Trading book average VaR in 2012 was 20 per cent higher than 2011, as the Rates business had higher net long interest rate exposures in India and South East Asia currencies.

Group

Daily value at risk (VaR at 97.5%, 1 day)

	2012				2011			
	Average \$million	High ³ \$million	Low ³ \$million	Actual ⁴ \$million	Average \$million	High ³ \$million	Low ³ \$million	Actual ⁴ \$million
Trading and Non-trading								
Interest rate risk ¹	25.8	31.1	20.7	24.4	20.4	25.1	15.2	23.5
Foreign exchange risk	4.8	7.7	2.3	4.2	4.3	8.8	2.6	3.4
Commodity risk	1.7	3.0	1.0	1.0	2.2	3.7	1.1	1.2
Equity risk	15.9	18.5	13.9	16.4	11.2	13.9	9.0	12.7
Total²	28.8	38.5	22.6	29.5	21.4	27.7	15.3	24.5
Trading								
Interest rate risk ¹	10.4	15.7	6.1	8.2	8.4	11.4	5.4	8.7
Foreign exchange risk	4.8	7.7	2.3	4.2	4.3	8.8	2.6	3.4
Commodity risk	1.7	3.0	1.0	1.0	2.2	3.7	1.1	1.2
Equity risk	1.5	2.8	0.6	1.9	1.9	3.1	1.1	1.1
Total²	12.8	20.8	6.8	8.0	10.7	14.4	7.0	9.7
Non-trading								
Interest rate risk ¹	22.2	26.7	17.8	21.4	16.0	21.6	11.1	20.1
Equity risk	16.7	18.0	14.4	16.9	11.4	13.7	9.4	12.7
Total²	27.1	33.5	21.9	23.9	19.2	25.3	11.0	22.6

¹ Interest rate risk VaR includes credit spread risk arising from securities held for trading or available-for-sale.

² The total VaR shown in the tables above is not a sum of the component risks due to offsets between them.

³ Highest and lowest VaR for each risk factor are independent and usually occur on different days.

⁴ Actual one day VaR as at period end date.

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Risk review continued

Market risk continued

Average daily income earned from market risk related activities

	2012	2011
	\$million	\$million
Trading		
Interest rate risk	6.7	4.6
Foreign exchange risk	5.1	5.7
Commodity risk	1.6	2.0
Equity risk	0.4	0.3
Total	13.8	12.6

Non-Trading

Interest rate risk	3.8	3.6
Equity risk	0.1	(0.4)
Total	3.9	3.2

Company

Daily Value at Risk (VaR at 97.5%, 1 Day)

	2012	2011
	\$million	\$million
Trading and Non-trading		
Interest rate risk ¹	19.3	16.3
Foreign exchange risk	3.3	3.2
Commodity risk	1.9	1.2
Equity risk	16.4	12.7
Total²	25.5	20.9

Average daily income earned from market risk related activities

	2012	2011
	\$million	\$million
Trading		
Interest rate risk ¹	7.9	7.9
Foreign exchange risk	3.3	3.2
Commodity risk	1.0	1.2
Equity risk	1.8	1.1
Total²	7.9	8.8

	2012	2011
	\$million	\$million
Non-trading		
Interest rate risk ¹	16.3	13.9
Equity risk	16.9	12.7
Total²	25.7	18.6

¹ Interest rate risk VaR includes credit spread risk arising from securities held for trading or available-for-sale.

² The total VaR shown in the tables above is not a sum of the component risks due to offsets between them.

Standard Chartered Bank

Risk review continued

Market risk continued

Market risk VaR coverage

Interest rate risk from non-trading book portfolios is transferred to Financial Markets where it is managed by local ALM desks under the supervision of local Asset and Liability Committees (ALCO). ALM deals in the market in approved financial instruments in order to manage the net interest rate risk, subject to approved VaR and risk limits.

VaR and stress tests are therefore applied to these non-trading book exposures (except Group Treasury, see below) in the same way as for the trading book, including available-for-sale securities. Securities classed as Loans and receivables or Held to maturity are not reflected in VaR or stress tests since they are accounted on an amortised cost basis and are match funded, so market price movements have no effect on either profit and loss or reserves.

Structural foreign exchange currency risks are managed by Group Treasury, as described below, and are not included within Group VaR. The foreign exchange risk on the non-trading book portfolios is minimised by match funding assets and liabilities in the same currency.

Equity risk relating to non-listed Private Equity and strategic investments is not included within the VaR. It is separately managed through delegated limits for both investment and divestment, and is also subject to regular review by an investment committee. These are included as Level 3 assets as disclosed in note 15 to the financial statements.

Group Treasury market risk

Group Treasury raises debt and equity capital and the proceeds are invested within the Group as capital or placed with ALM. Interest rate risk arises due to the investment of equity and reserves into rate-sensitive assets, as well as some tenor mismatches between debt issuance and placements. This risk is measured as the impact on net interest income (NII) of an unexpected and instantaneous adverse parallel shift in rates and is monitored over a rolling one-year time horizon (see table below).

This risk is monitored and controlled by the Group's Capital Management Committee (CMC).

Group Treasury NII sensitivity to parallel shifts in yield curves

	2012 \$million	2011 \$million
+25 basis points	33.1	30.9
-25 basis points	(33.1)	(30.9)

Group Treasury also manages the structural foreign exchange risk that arises from non-US dollar currency net investments in branches and subsidiaries. The impact of foreign exchange movements is taken to reserves which form part of the capital base. The effect of exchange rate movements on the capital ratio is partially mitigated by the fact that both the value of these investments and the risk weighted assets in those currencies follow broadly the same exchange rate movements. With the approval of CMC, Group Treasury may hedge the net investments if it is anticipated that the capital ratio will be materially affected by exchange rate movements. At 31 December 2012, the Group had taken net investment hedges (using a combination of derivative and non-derivative financial investments) of \$971 million (2011: \$1,115 million) to partly cover its exposure to Korean won.

The table below sets out the principal structural foreign exchange exposures (net of investment hedges) of the Group and Company at 31 December 2012 and 2011:

	Group		Company	
	2012 \$million	2011 \$million	2012 \$million	2011 \$million
Hong Kong dollar	6,619	5,712	-	-
Korean won	6,301	5,316	200	181
Indian rupee	4,025	3,305	3,461	2,735
Taiwanese dollar	2,946	2,847	47	50
Chinese yuan	2,245	1,993	-	-
Singapore dollar	1,195	1,791	842	758
Thai baht	1,662	1,514	-	-
UAE dirham	1,598	1,490	1,597	1,488
Malaysian ringgit	1,360	1,213	-	-
Indonesian rupiah	1,164	892	413	261
Pakistani rupee	586	639	-	-
Other	3,648	3,152	1,730	1,650
	33,349	29,864	8,290	7,123

An analysis has been performed on these exposures to assess the impact of a one per cent fall in the US dollar exchange rates adjusted to incorporate the impacts of correlations of these currencies to the US dollar. The impact on the positions above would be an increase of \$255 million (2011: \$221 million). Changes in the valuation of these positions are taken to reserves.

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Risk review continued

Market risk continued

Derivatives

Derivatives are contracts with characteristics and value derived from underlying financial instruments, interest and exchange rates or indices. They include futures, forwards, swaps and options transactions. Derivatives are an important risk management tool for banks and their customers because they can be used to manage market price risk. The market risk of derivatives is managed in essentially the same way as other traded products.

Our derivative transactions are principally in instruments where the mark-to-market values are readily determinable by reference to independent prices and valuation quotes.

We enter into derivative contracts in the normal course of business to meet customer requirements and to manage our exposure to fluctuations in market price movements.

Derivatives are carried at fair value and shown in the balance sheet as separate totals of assets and liabilities. Recognition of fair value gains and losses depends on whether the derivatives are classified as trading or held for hedging purposes.

The credit risk arising from all financial derivatives is managed as part of the overall lending limits to financial institutions and corporate customers. This is covered in more detail in the Credit risk section.

Hedging

Countries within the Group use futures, forwards, swaps and options transactions primarily to mitigate interest and foreign exchange risk arising from their in-country exposures. The Group also uses futures, forwards and options to hedge foreign exchange and interest rate risk.

In accounting terms under IAS 39, hedges are classified into three types: fair value hedges, predominantly where fixed rates of interest or foreign exchange are exchanged for floating rates; cash flow hedges, predominantly where variable rates of interest or foreign exchange are exchanged for fixed rates; and hedges of net investments in overseas operations translated to the parent company's functional currency, US dollars.

The notional value of interest rate swaps for the purpose of fair value hedging increased by \$6.1 billion at 31 December 2012 compared to 31 December 2011 as a result of our ongoing balance sheet management activity. The increase was largely due to the hedging of higher holdings of debt securities in the UK which form part of the Group's liquidity buffers. Currency swaps used for cash flow hedging increased by \$5.3 billion compared to 31 December 2011, primarily reflecting deposit growth in Hong Kong. The notional value of interest rate swaps used for cash flow hedging decreased by \$6.5 billion compared to 31 December 2011, largely due to lower floating rate mortgage balances in Korea.

We may also, under certain individually approved circumstances, enter into economic hedges that do not qualify for IAS 39 hedge accounting treatment, and which are accordingly marked to market through the profit and loss account, thereby creating an accounting asymmetry. These are entered into primarily to ensure that residual interest rate and foreign exchange risks are being effectively managed. Current economic hedge relationships include hedging the foreign exchange risk on certain debt issuances and on other monetary instruments held in currencies other than US dollars.

Standard Chartered Bank

Risk review continued

Liquidity risk

Liquidity risk is the risk that we either do not have sufficient financial resources available to meet our obligations as they fall due, or can only access these financial resources at excessive cost.

It is our policy to maintain adequate liquidity at all times, in all geographic locations and for all currencies, and hence to be in a position to meet obligations as they fall due. We manage liquidity risk both on a short-term and medium-term basis. In the short-term, our focus is on ensuring that the cash flow demands can be met where required. In the medium-term, the focus is on ensuring the balance sheet remains structurally sound and aligned to our strategy.

The GALCO is the responsible governing body that approves our liquidity management policies. The Liquidity Management Committee (LMC) receives authority from the GALCO and is responsible for setting or delegating authority to set liquidity limits and proposing liquidity risk policies. Liquidity in each country is managed by the Country ALCO within the pre-defined liquidity limits set by the LMC and in compliance with Group liquidity policies and practices and local regulatory requirements. GMR and Group Treasury propose and oversee the implementation of policies and other controls relating to the above risks.

We seek to manage our liquidity prudently in all geographical locations and for all currencies. Exceptional market events can impact us adversely, thereby affecting our ability to fulfill our obligations as they fall due. The principal uncertainties for liquidity risk are that customers withdraw their deposits at a substantially faster rate than expected, or that asset repayments are not received on the expected maturity date. To mitigate these uncertainties, our customer deposit base is diversified by type and maturity. In addition we have contingency funding plans including a portfolio of liquid assets that can be realised if a liquidity stress occurs, as well as ready access to wholesale funds under normal market conditions.

Policies and procedures

Our policy is to manage liquidity, in each country without presumption of Group support. Each Country ALCO is responsible for ensuring that the country is able to meet all its obligations to make payments as they fall due, and operates within the local regulations and liquidity limits set for the country.

Our liquidity risk management framework requires limits to be set for prudent liquidity management. There are limits on:

- The local and foreign currency cash flow gaps
- The level of external wholesale borrowing to ensure that the size of this funding is proportionate to the local market and our local operations
- The level of borrowing from other countries within the Group to contain the risk of contagion from one country to another
- Commitments, both on and off balance sheet, to ensure there are sufficient funds available in the event of drawdown on these commitments
- The advances to deposits ratio to ensure that commercial advances are funded by stable sources and that customer lending is funded by customer deposits
- The amount of assets that may be funded from other currencies

In addition, we prescribe a liquidity stress scenario that includes accelerated withdrawal of deposits over a period of time. Each country has to ensure that cash inflows exceed outflows under such a scenario.

All limits are reviewed at least annually, and more frequently if required, to ensure that they remain relevant given market conditions and business strategy. Compliance with limits is monitored independently on a regular basis by GMR and Finance. Limit excesses are escalated and approved under a delegated authority structure and reviewed by ALCO. Excesses are also reported monthly to the LMC and GALCO which provide further oversight.

We have significant levels of marketable securities, including government securities which can be realised, repo'd or used as collateral in the event of liquidity stress. In addition, a funding crisis response and recovery plan (FCRRP) is maintained by Group treasury which is reviewed and approved annually. The FCRRP lays out trigger points and actions in the event of a liquidity crisis to ensure that there is an effective response by senior management. A similar plan is maintained within each country.

Impact of Basel III

We already meet the Basel III requirements of 100 per cent for both the Net Stable Funding Ratio and the Liquidity Coverage Ratio, well ahead of the required implementation date.

Primary sources of funding

A substantial portion of our assets is funded by customer deposits made up of current and savings accounts and other deposits. Of total customer deposits, 41 per cent is retail deposits, 51 per cent corporate deposits, 8 per cent other (2011: retail 40 per cent, corporate 52 per cent, other 8 per cent). These customer deposits, which are widely diversified by type and maturity, represent a stable source of funds. The ALCO in each country monitors trends in the balance sheet and ensures that any concerns that might impact the stability of these deposits are addressed effectively. The ALCO also reviews balance sheet plans to ensure that projected asset growth is matched by growth in the stable funding base.

We maintain access to wholesale funding markets in all major financial centres and countries in which we operate as well as to commercial paper issuance. This seeks to ensure that we have flexibility around maturity transformation, have market intelligence, maintain stable funding lines and can obtain optimal pricing when we perform our interest rate risk management activities. In the next 12 months approximately \$7.0 billion of the Group's senior and subordinated debt is falling due for repayment either contractually or callable by the Group. Further details of the Group's senior and subordinated debt by geography are provided in note 2 on page 112.

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Risk review continued

Liquidity risk continued

Encumbered assets - Group

Encumbered assets represent those on balance sheet assets pledged or used as collateral in respect of certain of the Group's liabilities. Hong Kong government certificates of indebtedness which secure the equivalent amount of Hong Kong currency notes in circulation, and cash collateral pledged against derivatives are included within other assets. Taken together these encumbered assets represent 3.7 per cent (2011: 4.0 per cent) of total assets, continuing the Group's historical low level of encumbrance.

The following table provides a reconciliation of the Group's encumbered assets to total assets.

	2012			2011		
	Unencumbered assets	Encumbered assets	Total assets	Unencumbered assets	Encumbered assets	Total assets
	\$million	\$million	\$million	\$million	\$million	\$million
Cash and balances at central banks	51,480	227	51,707	37,403	-	37,403
Restricted balances at central banks	-	9,336	9,336	-	9,961	9,961
Derivative financial instruments	49,496	-	49,496	58,567	-	58,567
Loans and advances to banks ¹	68,431	723	69,154	66,548	-	66,548
Loans and advances to customers ¹	286,485	2,378	288,863	269,551	2,227	271,778
Investment securities ¹	119,147	1,598	120,745	101,776	2,779	104,555
Other assets	19,486	9,259	28,745	18,250	8,899	27,149
Current tax assets	215	-	215	232	-	232
Prepayments and accrued income	2,581	-	2,581	2,521	-	2,521
Interests in associates	953	-	953	903	-	903
Goodwill and intangible assets	6,954	-	6,954	6,721	-	6,721
Property, plant and equipment	6,646	-	6,646	5,078	-	5,078
Deferred tax assets	691	-	691	835	-	835
Total	612,565	23,521	636,086	568,385	23,866	592,251

¹ Includes assets held at fair value through profit or loss.

In addition to the above the Group received \$10,517 million (2011: \$7,076 million) as collateral under reverse repurchase agreements that was eligible for repledging. Of this the Group repledged \$1,378 million (2011: \$1,005 million) under repurchase agreements.

Standard Chartered Bank

Risk review continued

Liquidity risk continued

Encumbered assets - Company

Encumbered assets include those assets pledged or used as collateral and primarily relate to assets pledged as collateral in respect of repo transactions. Hong Kong government certificates of indebtedness (included within other assets) are also considered to be encumbered as they secure the equivalent amount of Hong Kong currency notes in circulation (included with other liabilities). Taken together, these encumbered assets comprise 3.3 per cent (2011: 3.0 per cent) of total assets. The following table provides a reconciliation of the Group's total assets to unencumbered assets readily available to secure funding.

	2012			2011		
	Unencumbered assets	Encumbered assets	Total assets	Unencumbered assets	Encumbered assets	Total assets
	\$million	\$million	\$million	\$million	\$million	\$million
Cash and balances at central banks	44,799	227	45,026	31,368	227	31,595
Restricted balances at central banks	-	4,629	4,629	-	4,673	4,673
Derivative financial instruments	47,443	-	47,443	56,929	-	56,929
Loans and advances to banks	37,301	723	38,024	37,538	-	37,538
Loans and advances to customers	141,711	1,111	142,822	127,967	84	128,051
Investment securities	54,081	947	55,028	45,699	959	46,658
Other assets	13,724	5,055	18,779	11,215	4,843	16,058
Due from subsidiary undertakings and other related parties	18,029	-	18,029	16,490	-	16,490
Current tax assets	37	-	37	47	-	47
Prepayments and accrued income	1,170	-	1,170	1,203	-	1,203
Investment in subsidiary undertakings	13,571	-	13,571	14,270	-	14,270
Interests in joint ventures	489	-	489	396	-	396
Interests in associates	45	-	45	53	-	53
Goodwill and intangible assets	1,031	-	1,031	933	-	933
Property, plant and equipment	626	-	626	685	-	685
Deferred tax assets	571	-	571	519	-	519
Total	374,628	12,692	387,320	345,312	10,786	356,098

In addition to the above the Group received \$7,963 million (2011: \$4,602 million) as collateral under reverse repurchase agreements that was eligible for repledging. Of this the Group repledged \$1,146 million (2011: \$1,005 million) under repurchase agreements.

Standard Chartered Bank

Risk review continued

Liquidity risk continued

Liquidity metrics

We also monitor key liquidity metrics on a regular basis, both on a country basis and in aggregate across the Group. The key metrics are:

Advances-to-deposits ratio

This is defined as the ratio of total loans and advances to customers relative to total customer deposits. A low advances to deposits ratio demonstrates that customer deposits exceed customer loans resulting from emphasis placed on generating a high level of stable funding from customers.

Group

	2012 \$million	2011 \$million
Loans and advances to customers ¹	288,863	271,778
Customer accounts ²	389,882	354,844
	%	%
Advances to deposits ratio	74.1	76.6

¹ see note 19 to the financial statements on page 151.

² see note 29 to the financial statements on page 167.

Company

	2012 \$million	2011 \$million
Loans and advances to customers ¹	142,822	128,051
Customer accounts ²	174,850	152,618
	%	%
Advances to deposits ratio	81.7	83.9

¹ see note 19 to the financial statements on page 151.

² see note 29 to the financial statements on page 167.

Liquid asset ratio

This is the ratio of liquid assets to total assets. The significant level of holdings of liquid assets in the balance sheet reflects the application of our liquidity policies and practices and the holding of these assets are spread across our geographies. The following table details the component of liquid assets together with the ratio of liquid assets to total assets. The ratio improved in 2012 compared to 2011 reflecting the increased levels of liquid assets held to meet regulatory requirements, especially in the UK.

	Group		Company	
	2012 \$ million	2011 \$million	2012 \$ million	2011 \$million
Cash and balances at central banks	61,043	47,364	49,655	36,268
Restricted balances	(9,336)	(9,961)	(4,629)	(4,673)
Loans and advances to banks	69,154	66,548	38,024	37,538
Deposits by banks	(37,445)	(36,388)	(29,343)	(28,946)
Treasury bills	29,826	26,289	9,526	7,702
Debt securities	84,487	74,130	42,978	37,411
of which :				
Issued by governments	33,688	28,635	14,301	11,689
Issued by banks	32,261	27,198	17,271	13,517
Issued by corporates and other entities	18,538	18,297	11,406	12,205
Illiquid securities	(1,706)	(1,415)	-	(1,090)
Others	(2,398)	(1,850)	(2,387)	(1,771)
Liquid assets	193,625	164,717	103,824	82,439
Total assets	636,086	592,251	387,320	356,098
Liquid assets to total asset ratio (%)	30.4%	27.8%	26.8%	23.2%

Standard Chartered Bank

Risk review continued

Liquidity risk continued

Geographic spread of liquid assets

Group

	2012								Total
	Hong Kong	Singapore	Korea	Other Asia Pacific	India	Middle East & Other S Asia	Africa	Americas UK & Europe	
	%	%	%	%	%	%	%	%	
Liquid assets	17%	11%	8%	16%	4%	5%	3%	36%	100%

	2011								Total
	Hong Kong	Singapore	Korea	Other Asia Pacific	India	Middle East & Other S Asia	Africa	Americas UK & Europe	
	%	%	%	%	%	%	%	%	
Liquid assets	17%	10%	8%	21%	4%	5%	4%	31%	100%

Company

	2012							Total
	Singapore	Other Asia Pacific	India	Middle East & Other S Asia	Africa	Americas UK & Europe		
	%	%	%	%	%	%		
Liquid assets	18%	6%	6%	7%	1%	62%	100%	

	2011						Total
	Singapore	Other Asia Pacific	India	Middle East & Other S Asia	Africa	Americas UK & Europe	
	%	%	%	%	%	%	
Liquid assets	19%	10%	7%	7%	1%	56%	100%

Liquidity management – stress scenarios

The Group conducts a range of liquidity related stress analyses, both for internal and regulatory purposes.

Internally, three stress tests are run routinely: an acute 8-day name specific stress, a 30-day market wide stress and a more chronic 90-day combined name specific and market wide stress.

The 8-day stress is specifically designed to determine a minimum quantity of marketable securities that must be held at all times in all countries. This stress is computed daily, and the minimum marketable securities requirement is observed daily. This is intended to ensure that, in the unlikely event of an acute loss of confidence in the Group or any individual entity within it, there is sufficient time to take corrective action. Every country must pass, on stand-alone basis, with no presumption of Group support.

As at 31 December 2012 all countries passed the stress.

The Group is also exposed to the risk of market-wide disruption in one or more countries. It is therefore appropriate to test resilience in each country to unexpected local market disruption, for example loss of interbank money or foreign exchange markets. To this end, country ALCOs consider a 30-day market-wide stress.

Finally, a 90-day test is run. These stress tests consider more prolonged stresses which affect markets across a number of the Group's main footprint countries and in which the Group itself may come under some sustained pressure. This pressure may be unwarranted or may be because the Group is inextricably linked with those markets/countries. The stress tests the adequacy of contingency funding arrangements beyond the marketable securities held to cover the 8-day stress, including the portability of funding from one country to support another. These stresses are managed at a Group rather than individual country level.

Liquidity and funding risks are also considered as part of the Group's wider periodic scenario analysis

In addition, the Group runs regulatory stress scenarios, namely the FSA stress scenario and the Basel III Liquidity Coverage Ratio scenario, which are reported periodically to the FSA, as well as local regulatory stresses where applicable.

Standard Chartered Bank

Risk review continued

Liquidity risk continued

Contractual maturity of assets and liabilities - Group

This table analyses assets and liabilities into relevant maturity groupings based on the remaining period to the contractual maturity date as at the balance sheet date, on a discounted basis. Contractual maturities do not necessarily reflect actual repayments or cash flow.

	2012				Total \$million
	Three months or less \$million	Between three months and one year \$million	Between one year and five years \$million	More than five years \$million	
Assets					
Cash and balances at central banks	51,707	-	-	9,336	61,043
Derivative financial instruments	10,492	9,523	19,034	10,447	49,496
Loans and advances to banks ¹	47,308	18,916	2,760	170	69,154
Loans and advances to customers ¹	90,800	45,695	71,240	81,128	288,863
Investment securities ¹	24,917	34,128	47,282	14,418	120,745
Other assets	22,404	2,840	289	21,252	46,785
Total assets	247,628	111,102	140,605	136,751	636,086
Liabilities					
Deposits by banks ¹	35,482	1,294	597	72	37,445
Customer accounts ¹	318,871	53,086	10,873	7,052	389,882
Derivative financial instruments	10,077	10,150	18,307	9,660	48,194
Senior debt	1,618	2,713	2,385	405	7,121
Other debt securities in issue ¹	23,823	9,890	3,148	2,724	39,585
Due to parent companies	15,096	-	-	-	15,096
Subordinated liabilities and other borrowed funds	617	955	3,496	18,016	23,084
Other liabilities	17,114	5,434	1,606	11,645	35,799
Total liabilities	422,698	83,522	40,412	49,574	596,206
Net liquidity gap	(175,070)	27,580	100,193	87,177	39,880

¹ Amounts include financial instruments held at fair value through profit or loss (see note 15).

	2011				Total \$million
	Three months or less \$million	Between three months and one year \$million	Between one year and five years \$million	More than five years \$million	
Assets					
Cash and balances at central banks	37,402	-	-	9,962	47,364
Derivative financial instruments	12,952	18,283	15,270	12,062	58,567
Loans and advances to banks ¹	46,369	16,381	3,269	529	66,548
Loans and advances to customers ¹	85,480	42,266	68,430	75,602	271,778
Investment securities ¹	20,695	32,456	41,208	10,196	104,555
Other assets	14,898	5,966	310	22,265	43,439
Total assets	217,796	115,352	128,487	130,616	592,251
Liabilities					
Deposits by banks ¹	34,092	1,488	524	284	36,388
Customer accounts ¹	297,054	40,242	10,309	7,239	354,844
Derivative financial instruments	11,621	19,232	13,842	12,423	57,118
Senior debt	1,768	2,725	1,671	383	6,547
Other debt securities in issue ¹	22,781	5,268	3,473	2,130	33,652
Due to parent companies	13,627	-	-	-	13,627
Subordinated liabilities and other borrowed funds	26	-	8	19,428	19,462
Other liabilities	19,070	2,316	882	12,895	35,163
Total liabilities	400,039	71,271	30,709	54,782	556,801
Net liquidity gap	(182,243)	44,081	97,778	75,834	35,450

¹ Amounts include financial instruments held at fair value through profit or loss (see note 15).

Standard Chartered Bank

Risk review continued

Liquidity risk continued

Contractual maturity of assets and liabilities - Company

	2012				
	Three months or less	Between three months and one year	Between one year and five years	More than five years	Total
	\$million	\$million	\$million	\$million	\$million
Assets					
Cash and balances at central banks	49,655	-	-	-	49,655
Derivative financial instruments	9,869	9,249	17,917	10,408	47,443
Loans and advances to banks ¹	26,655	8,662	2,535	172	38,024
Loans and advances to customers ¹	53,725	21,885	36,744	30,468	142,822
Investment securities ¹	6,569	12,959	25,747	9,753	55,028
Investment in subsidiary undertakings	-	-	-	13,571	13,571
Other assets	18,073	1,637	29	3,009	22,748
Due from subsidiary undertakings	18,029	-	-	-	18,029
Total assets	182,575	54,392	82,972	67,381	387,320
Liabilities					
Deposits by banks ¹	28,512	464	344	23	29,343
Customer accounts ¹	142,620	24,732	7,249	249	174,850
Derivative financial instruments	9,662	9,676	17,153	9,506	45,997
Senior debt	-	-	-	232	232
Other debt securities in issue ¹	22,221	9,120	2,970	1,285	35,596
Other liabilities	10,256	3,375	561	3,127	17,319
Due to subsidiary undertakings	39,244	-	-	-	39,244
Subordinated liabilities and other borrowed funds	685	599	337	18,486	20,107
Total liabilities	253,200	47,966	28,614	32,908	362,688
Net liquidity gap	(70,625)	6,426	54,358	34,473	24,632

	2011				
	Three months or less	Between three months and one year	Between one year and five years	More than five years	Total
	\$million	\$million	\$million	\$million	\$million
Assets					
Cash and balances at central banks	31,595	-	-	4,673	36,268
Derivative financial instruments	12,157	17,888	14,809	12,075	56,929
Loans and advances to banks ¹	26,408	7,887	2,714	529	37,538
Loans and advances to customers ¹	49,194	20,501	33,852	24,504	128,051
Investment securities ¹	7,693	12,254	19,347	7,364	46,658
Investment in subsidiary undertakings	-	-	-	16,845	16,845
Other assets	9,232	4,670	5	5,987	19,894
Due from subsidiary undertakings	13,915	-	-	-	13,915
Total assets	150,194	63,200	70,727	71,977	356,098
Liabilities					
Deposits by banks ¹	27,536	981	203	226	28,946
Customer accounts ¹	131,311	16,793	4,411	103	152,618
Derivative financial instruments	11,116	18,829	13,990	11,768	55,703
Senior debt	-	-	-	267	267
Other debt securities in issue ¹	19,666	4,216	3,034	106	27,022
Other liabilities	8,984	1,041	415	5,746	16,186
Due to subsidiary undertakings	36,014	-	-	-	36,014
Subordinated liabilities and other borrowed funds	-	-	-	16,288	16,288
Total liabilities	234,627	41,860	22,053	34,504	333,044
Net liquidity gap	(84,433)	21,340	48,674	37,473	23,054

¹ Amounts include financial instruments held at fair value through profit or loss (see note 15).

Standard Chartered Bank

Risk review continued

Liquidity risk continued

Within the tables above cash and balances with central banks, loans and advances to banks, treasury bills and investment securities that are available-for-sale are used by the Group principally for liquidity management purposes.

Behavioural maturity of financial assets and liabilities

The Group seeks to manage its liabilities both on a contractual and behavioural basis primarily by matching the maturity profiles of assets and liabilities. The cash flows presented on page 95 reflect the cash flows which will be contractually payable over the residual maturity of the instruments. In practice, however, certain liability instruments behave differently from their contractual terms and typically, for short term customer accounts, extend to a longer period than their contractual maturity. The Group's expectation of when such liabilities are likely to become payable is provided in the table below:

Group

	2012				
	Three months or less	Between three months and one year	Between one year and five years	More than five years and undated	Total
	\$million	\$million	\$million	\$million	\$million
Loans and advances to customers	82,464	51,309	89,714	65,376	288,863
Loans and advances to banks	49,975	15,903	3,106	170	69,154
Total loans and advances	132,439	67,212	92,820	65,546	358,017
Deposits by banks	35,315	1,451	607	72	37,445
Customer accounts	166,223	65,206	149,956	8,497	389,882
Total deposits	201,538	66,657	150,563	8,569	427,327
Net gap	(69,099)	555	(57,743)	56,977	(69,310)

	2011				
	Three months or less	Between three months and one year	Between one year and five years	More than five years	Total
	\$million	\$million	\$million	\$million	\$million
Loans and advances to customers	66,706	40,826	102,686	61,560	271,778
Loans and advances to banks	45,480	16,536	3,980	552	66,548
Total loans and advances	112,186	57,362	106,666	62,112	338,326
Deposits by banks	33,717	1,745	628	298	36,388
Customer accounts	142,394	57,673	125,291	29,486	354,844
Total deposits	176,111	59,418	125,919	29,784	391,232
Net gap	(63,925)	(2,056)	(19,253)	32,328	(52,906)

Company

	2012				
	Three months or less	Between three months and one year	Between one year and five years	More than five years and undated	Total
	\$million	\$million	\$million	\$million	\$million
Loans and advances to customers	49,394	25,828	37,253	30,347	142,822
Loans and advances to banks	29,478	5,870	2,509	167	38,024
Total loans and advances	78,872	31,698	39,762	30,514	180,846
Deposits by banks	28,345	622	352	24	29,343
Customer accounts	80,772	36,797	57,262	19	174,850
Total deposits	109,117	37,419	57,614	43	204,193
Net liquidity gap	(30,245)	(5,721)	(17,852)	30,471	(23,347)

Standard Chartered Bank

Risk review continued

Liquidity risk continued

	2011					Total \$million
	Three months or less	Between three months and one year	Between one year and five years	More than five years		
	\$million	\$million	\$million	\$million		
Loans and advances to customers	45,347	22,087	35,861	24,756		128,051
Loans and advances to banks	25,831	8,092	3,062	553		37,538
Total loans and advances	71,178	30,179	38,923	25,309		165,589
Deposits by banks	27,403	1,034	278	231		28,946
Customer Accounts	70,331	25,797	33,100	23,390		152,618
Total deposits	97,734	26,831	33,378	23,621		181,564
Net liquidity gap	(26,556)	3,348	5,545	1,688		(15,975)

Financial liabilities (excluding derivative financial instruments) on an undiscounted basis

The following table analyses the contractual cash flows payable for the Group's financial liabilities by remaining contractual maturities on an undiscounted basis. The financial liability balances in the table below will not agree to the balances reported in the consolidated balance sheet as the table incorporates all contractual cash flows, on an undiscounted basis, relating to both principal and interest payments.

Within the 'More than five years and undated' maturity band are undated financial liabilities of \$11,185 million (2011: \$6,517 million), all of which relate to subordinated debt, on which interest payments are not included as this information would not be meaningful given the instruments are undated. Interest payments on these instruments are included within the relevant maturities up to five years.

Group	2012				2011			
	Three months or less	Between three months and one year	Between one year and five years	More than five years	Three months or less	Between three months and one year	Between one year and five years	More than five years
	\$million	\$million	\$million	\$million	\$million	\$million	\$million	\$million
Deposits by banks ¹	35,526	1,397	698	75	34,184	1,549	635	330
Customer accounts ¹	316,367	55,026	12,799	8,021	298,211	41,538	8,151	5,954
Debt securities in issue ¹	27,531	14,743	15,837	12,744	24,965	8,367	5,863	3,393
Due to parent companies	15,119	-	-	-	13,627	-	-	-
Subordinated liabilities and other borrowed funds	391	1,228	7,814	34,769	166	498	2,921	17,884
Other liabilities	15,335	4,143	1,460	10,824	23,151	2,321	708	9,279
Total liabilities	410,269	76,537	38,608	66,433	394,304	54,273	18,278	36,840
Gross loan commitments	122,986	9,544	21,727	10,185	70,558	22,349	3,968	1,120

¹ Amounts include financial instruments held at fair value through profit or loss (see note 15).

Company	2012				2011			
	Three months or less	Between three months and one year	Between one year and five years	More than five years	Three months or less	Between three months and one year	Between one year and five years	More than five years
	\$million	\$million	\$million	\$million	\$million	\$million	\$million	\$million
Deposits by banks ¹	28,444	537	474	23	27,584	1,023	259	262
Customer accounts ¹	141,315	25,819	7,954	19	130,361	17,576	2,708	93
Debt securities in issue ¹	24,099	11,061	8,931	1,554	19,995	4,432	3,201	496
Subordinated liabilities and other borrowed funds	343	1,078	6,752	31,068	156	552	3,020	27,043
Due to parent companies	39,244	-	-	-	36,014	-	-	-
Other liabilities ¹	11,201	2,228	489	3,380	9,961	1,134	488	4,087
Total liabilities	244,646	40,723	24,600	36,044	224,071	24,717	9,676	31,981
Gross loan commitments	69,307	1,554	14,816	6,491	33,287	18,933	1,659	1,120

¹ Amounts include instruments held at fair value through profit or loss (see note 15)

Standard Chartered Bank

Risk review continued

Liquidity risk continued

Derivatives financial instruments on an undiscounted basis

Derivative financial instruments include those net settled derivative contracts in a net liability position, together with the pay leg of gross settled contracts regardless of whether the overall contract is in an asset or liability position. The receiving leg is not shown in this table and as a result the derivative amounts in this table are inflated by their exclusion.

Group	2012				2011			
	Three months or less	Between three months and one year	Between one year and five years	More than five years	Three months or less	Between three months and one year	Between one year and five years	More than five years
	\$million	\$million	\$million	\$million	\$million	\$million	\$million	\$million
Derivative financial instruments	400,114	169,817	47,386	25,696	352,344	272,637	169,305	24,964

Company	2012				2011			
	Three months or less	Between three months and one year	Between one year and five years	More than five years	Three months or less	Between three months and one year	Between one year and five years	More than five years
	\$million	\$million	\$million	\$million	\$million	\$million	\$million	\$million
Derivative financial instruments	594,130	264,268	53,346	92	449,252	263,430	41,542	390

Operational risk

Operational risk is the potential for loss arising from the failure of people, process or technology or the impact of external events. Operational risk exposures are managed through a consistent set of management processes that drive risk identification, assessment, control and monitoring. We seek to control operational risks to ensure that operational losses do not or cause material damage to the Group's franchise.

Operational risks can arise from all business lines and from all activities carried out by the Group. We seek to systematically identify and manage operational risk by segmenting all the Group's activities into manageable units. Each of these has an owner who is responsible for identifying and managing all the risks that arise from those activities as an integral part of their First Line responsibilities. Products and services offered to clients and customers in all our markets are also assessed and authorised in accordance with product governance procedures.

Although operational risk exposures can take many varied forms, we seek to manage them in accordance with standards that drive systematic risk identification, assessment, control and monitoring. These standards are challenged and reviewed regularly to ensure their ongoing effectiveness. To support the systematic identification of material operational risk exposures associated with a given process, we classify them into the following types:

Operational Risk Subtypes	
Processing failure	Potential for loss due to failure of an established process or to a process design weakness
External Rules & Regulations	Potential for actual or opportunity loss due to failure to comply with laws or regulations, or as a result of changes in laws or regulations or in their interpretation or application
Liability	Potential for loss or sanction due to a legal claim against any part of the Group or individuals within the Group
Legal enforceability	Potential for loss due to failure to protect legally the Group's interests or from difficulty in enforcing the Group's rights
Damage to assets	Potential for loss or damage to physical assets and other property from natural disaster and other events
Safety & security	Potential for loss or damage to health or safety of staff, customers or third parties arising from internal failures or the effects of external events
Internal crime or dishonesty	Potential for loss due to action by staff which is intended to defraud, misappropriate property or to circumvent the law or company policy
External financial crime	Potential for loss due to criminal acts by external parties such as fraud, theft and other criminal activity
Model	Potential for loss due to a significant discrepancy between the output of risk measurement models and actual experience

Standard Chartered Bank

Risk review continued

Operational risk continued

Identified operational risk exposures are rated 'Low', 'Medium', 'High' or 'Very High' in accordance with defined risk assessment criteria. Risks which are outside of set materiality thresholds receive a differential level of management attention and are reported to senior management and risk committees up to Board level. Significant external events or internal failures which have occurred are analysed to identify the root cause of any failure for remediation and future mitigation. Actual operational losses are systematically recorded. Those operational losses incurred during 2012 are summarised in section 33 of the notes.

In the Second Line of Defence, Group Operational Risk is responsible for setting and maintaining the standards for operational risk management and control. In addition, specialist operational risk control owners have responsibility for the control of operational risk arising from the management of the following activities Group-wide: people, technology, vendor, property, security, accounting and financial control, tax, legal processes, corporate authorities and structure and regulatory compliance.

Each risk control owner, supported by a specialist control function, is responsible for identifying risks that are material to the Group and for maintaining an effective control environment, across the whole organisation. This includes defining appropriate policies for approval by authorised risk committees, that impose specific controls and constraints on the Group's activities.

The Group Operational Risk Committee, chaired by the GCRO, oversees the management of operational risks across the Group, supported by business, functional, and country-level committees. All operational risk committees operate on the basis of a defined structure of delegated authorities and terms of reference, derived from the GRC.

Reputational risk

Reputational risk is the potential for damage to the Group's franchise, resulting in loss of earnings or adverse impact on market capitalisation as a result of stakeholders taking a negative view of the Group or its actions.

Reputational risk could arise from the failure by the Group to effectively mitigate the risks in its businesses including one or more of country, credit, liquidity, market, regulatory, legal or other operational risk. Damage to the Group's reputation could cause existing clients to reduce or cease to do business with the Group and prospective clients to be reluctant to do business with the Group. All employees are responsible for day to day identification and management of reputational risk. These responsibilities form part of the Group Code of Conduct and are embedded through values-based performance assessments.

It may also arise from a failure to comply with environmental and social standards. Our primary environmental and social impacts arise through our relationship with our clients and customers and the financing decisions we take. We have published a series of position statements covering high impact sectors and key issues. These set out our approach on providing financial services to clients who operate in these sectors, and support our internal environmental and social risk assessment process. We have mechanisms in our origination and credit processes to identify and assess environmental and social risks, and a dedicated Sustainable Finance team in Wholesale Banking who review proposed high-risk transactions.

The GRC provides Group-wide oversight on reputational risk, sets policy and monitors material risks. The Group Head of Corporate Affairs is the overall risk control owner for reputational risk. The BRC and BVC provide additional oversight of reputational risk on behalf of the Board.

At the business level, the Wholesale Banking Responsibility and Reputational Risk Committee and the Consumer Banking Reputational Risk Committee have responsibility for managing reputational risk in their respective businesses.

At country level, the Country Head of Corporate Affairs is the risk control owner of reputational risk. It is their responsibility to protect our reputation in that market with the support of the country management team. The Head of Corporate Affairs and Country Chief Executive Officer must actively:

- Promote awareness and application of our policies and procedures regarding reputational risk
- Encourage business and functions to take account of our reputation in all decision-making, including dealings with customers and suppliers
- Implement effective in-country reporting systems to ensure they are aware of all potential issues in tandem with respective business committees
- Promote effective, proactive stakeholder management through ongoing engagement.

Pension risk

Pension risk is the potential for loss due to having to meet an actuarially assessed shortfall in the Group's pension schemes. Pension risk exposure is not concerned with the financial performance of our pension schemes but is focused upon the risk to our financial position arising from our need to meet our pension scheme funding obligations. The risk assessment is focused on our obligations towards our major pension schemes, ensuring that our funding obligation to these schemes is comfortably within our financial capacity. Pension risk is monitored on a quarterly basis, taking account of the actual variations in asset values and updated expectations regarding the progression of the pension fund assets and liabilities.

The Group Pension Risk Committee is the body responsible for governance of pension risk and it receives its authority from GRC.

Standard Chartered Bank

Capital

Capital management

Our approach to capital management is to maintain a strong capital base to support the development of our business, to meet regulatory capital requirements at all times and to maintain strong credit ratings.

Strategic, business and capital plans are drawn up annually covering a five year horizon and are approved by the Board. The capital plan ensures that adequate levels of capital and an optimum mix of the different components of capital are maintained to support our strategy. Group Treasury is responsible for the ongoing assessment of the demand for capital and the updating of the Group's capital plan.

The capital plan takes the following into account:

- current regulatory capital requirements and our assessment of future standards
- demand for capital due to business growth forecasts, loan impairment outlook and market shocks or stresses
- forecast demand for capital to support credit ratings and as a signaling tool to the market
- available supply of capital and capital raising options

The Group formulates a capital plan with the help of internal models and other quantitative techniques. The models help to estimate potential future losses arising from credit, market and other risks, and using regulatory formulae the amount of capital required to support them. In addition, the models enable the Group to gain an enhanced understanding of its risk profile, e.g. by identifying potential concentrations and assessing the impact of portfolio management actions. Stress testing and scenario analysis are used to ensure that the Group's internal capital assessment considers the impact of extreme but plausible scenarios on its risk profile and capital position. They provide an insight into the potential impact of significant adverse events and how these could be mitigated.

We use a capital model to assess the capital demand for material risks, and support this with our internal capital adequacy assessment. Each material risk is assessed, relevant mitigants considered, and appropriate levels of capital determined. The capital modelling process is a key part of our management disciplines.

A strong governance and process framework is embedded in our capital planning and assessment methodology. The key capital management committees are the Capital Management Committee (CMC) and the Group Asset and Liability Committee (GALCO). GALCO approves the capital governance framework and delegates to CMC the approval of capital management policies.

At a country level, capital is monitored by the local Asset and Liability Committee (ALCO). Appropriate policies are in place governing the transfer of capital within the Group. These ensure that capital is remitted, as appropriate, subject to complying with local regulatory requirements and statutory and contractual restrictions. There are no current material practical or legal impediments to the prompt transfer of capital resources in excess of those required for regulatory purposes or repayment of liabilities between the parent company, Standard Chartered Bank and its subsidiaries when due.

Current compliance with Capital Adequacy Regulations

Our lead supervisor is the UK's Financial Services Authority (FSA). On 1 April 2013, the UK FSA will cease to exist and from this date Standard Chartered Bank will be authorised by the Prudential Regulation Authority (PRA) and regulated by the Financial Conduct Authority and PRA.

The capital that we are required to hold by the FSA is determined by our balance sheet, off-balance sheet, counterparty and other risk exposures. Further detail on counterparty and risk exposures is included in the Risk review on pages 14 to 82.

Capital in branches and subsidiaries is maintained on the basis of host regulators' requirements and the Group's assessment of capital requirements under normal and stress conditions. Suitable processes and controls are in place to monitor and manage capital adequacy and ensure compliance with local regulatory ratios in all our legal entities. These processes are designed to ensure that we have sufficient capital available to meet local regulatory capital requirements at all times.

The table on page 84 summarises the consolidated capital position of the Group.

Basel II

The Group complies with the Basel II framework, which has been implemented in the UK through the FSA's general prudential sourcebook and its prudential sourcebook for Banks, Building Societies and Investment Firms.

Since 1 January 2008, we have been using the advanced Internal Ratings Based (IRB) approach for the calculation of credit risk capital requirements with the approval of the FSA. This approach builds on our risk management practices and is the result of a significant investment in data warehousing and risk models.

We use Value at Risk (VaR) models for the measurement of market risk capital for part of our trading book exposures where permission to use such models has been granted by the FSA. Where our market risk exposures are not approved for inclusion in VaR models, the capital requirements are determined using standard rules provided by the regulator.

We apply the Standardised Approach for determining the capital requirements for operational risk.

Basel III

The Basel III rules text published in December 2010, and updated in June 2011 by the Basel Committee on Banking Supervision (BCBS) serves to bring together the details of global regulatory standards on bank capital adequacy and liquidity. While these give us greater clarity on the global regulatory standards and the various timelines for transition, significant uncertainty remains around the specific application in particular via the implementation of European Union legislation (the package of reforms commonly referred to as the Capital Requirements Directive IV (CRD IV)) comprising the current proposals for a Capital Requirements Regulation and a Capital Requirements Directive.

Standard Chartered Bank

Capital continued

	2012 \$million	2011 \$million
Capital Base		
Shareholders' equity		
Parent company shareholders' equity per balance sheet	36,299	32,305
Preference share classified as equity included in Tier 1	(1,495)	(1,500)
	34,804	30,805
Non-controlling interests		
Non-controlling interests per balance sheet	3,581	3,145
Non-controlling Tier 1 capital included in other Tier 1 Capital	(320)	(320)
	3,261	2,825
Regulatory adjustments		
Unrealised losses on available-for-sale debt securities	(97)	282
Unrealised gains on available-for-sale equity securities included in Tier 2	(495)	(308)
Cash flow hedge reserve	(77)	13
Other adjustments	(35)	(46)
	(704)	(59)
Deductions		
Goodwill and other intangible assets	(6,954)	(6,721)
50 per cent excess of expected losses ¹	(966)	(703)
50 per cent of tax on expected losses	238	187
50 per cent of securitisation positions	(118)	(106)
Other regulatory adjustments	(42)	(52)
	(7,842)	(7,395)
Core Tier 1 capital	29,519	26,176
Other Tier 1 Capital		
Preference shares included within shareholder's equity	1,495	1,500
Included within 'Subordinated debt and other borrowings' ¹	925	929
Innovative Tier 1 securities (excluding non-controlling Tier 1 Capital)	2,553	2,507
Non-controlling Tier 1 Capital	320	320
	5,293	5,256
Deductions		
50 per cent of tax on expected losses ¹	238	187
50 per cent of material holdings	(552)	(521)
	(314)	(334)
Total Tier 1 capital	34,498	31,098
Tier 2 capital:		
Qualifying subordinated liabilities:²		
Subordinated liabilities as per balance sheet	23,084	19,462
Preference shares eligible for Tier 1 capital	(925)	(929)
Innovative Tier 1 securities eligible for Tier 1 capital	(2,553)	(2,507)
Adjustments relating to fair value hedging and non-eligible securities	(1,890)	(1,578)
	17,716	14,448
Regulatory adjustments		
Reserves arising on revaluation of available-for-sale equities	495	308
Portfolio impairment provision	248	239
	743	547
Deductions		
50 per cent excess of expected losses ¹	(966)	(703)
50 per cent of material holdings	(552)	(521)
50 per cent of securitisation positions	(118)	(106)
	(1,636)	(1,330)
Total Tier 2 capital	16,823	13,665
Deductions from Tier 1 and Tier 2 capital	(3)	(4)
Total Capital Base	51,318	44,759

¹ Excess of expected losses in respect of advanced IRB portfolios are shown gross of tax benefits

² Consists of perpetual subordinated debt \$3,147 million (2011: \$3,289 million) and other eligible subordinated debt \$14,569 million (2011: \$11,159 million).

Standard Chartered Bank

Capital continued

Movement in Total capital

	2012	2011
	\$million	\$million
Opening Core Tier 1 capital:	26,176	23,713
Ordinary shares issued in the year and share premium	-	367
Profit for the year	4,275	4,271
Dividends, net of scrip	(1,473)	(1,212)
Increase in goodwill and other intangible assets	(233)	(44)
Foreign currency translation differences	499	(1,002)
Increase in unrealised gains on available for sale assets	(379)	107
Movement in eligible other comprehensive income	878	(11)
Increase in excess expected loss, net of tax	(212)	(39)
Increase/(decrease) in securitisation positions	(12)	26
Closing Core Tier 1 capital	29,519	26,176
Opening Other Tier 1 capital	4,922	5,099
Increase in tax benefit of excess expected loss	51	4
Increase in material holdings deducted from capital	(31)	(195)
Other	37	14
Closing Other Tier 1 capital	4,979	4,922
Opening Tier 2 capital	13,665	12,583
Issuance of subordinated loan capital, net of redemptions and foreign currency translation differences	3,268	1,553
Increase in revaluation reserve eligible for inclusion in Tier 2 capital	187	(236)
Portfolio impairment provision	9	(27)
Increase in excess expected loss	(263)	(39)
Increase in material holdings deducted from capital	(31)	(195)
Increase in securitisation positions	(12)	26
Closing Tier 2 capital	16,823	13,665
Deductions from total capital	(3)	(4)
Closing Total capital	51,318	44,759

Standard Chartered Bank

Report of the Directors

Directors' Report

The directors present their report and the audited financial statements of Standard Chartered Bank ('the Company') and its subsidiaries (the 'Group') and Standard Chartered Bank (the 'Company') for the year ended 31 December 2012.

Activities

The activities of the Group are banking and providing other financial services. The Financial Review on pages 3 to 13 contains a review of the business during 2012.

Post balance sheet events

There are no post balance sheet events, other than disclosed in note 44 to the accounts.

Financial instruments

Details of financial instruments are given in note 15 to the accounts.

Results and dividends

The results for the year are given in the income statement on page 91.

Interim dividends totalling \$1,372 million were paid to ordinary shareholders during the year (2011: \$1,111 million). The directors do not recommend the payment of a final dividend (2011: \$nil).

Share capital

Details of the Company's share capital are given in note 35 to the accounts.

Loan capital

Details of the loan capital are given in note 32 to the accounts.

Property, plant and equipment

Details of the property, plant and equipment of the Company are given in note 26 to the accounts.

Directors and their interests

The directors of the Company at the date of this report are:

Mr P A Sands, Chairman
 Mr S P Bertamini
 Mr J S Bindra
 Mr R H Meddings
 Dr T J Miller
 Mr A M G Rees
 Mr V Shankar
 Mrs T J Clarke (appointed 14 January 2013)
 Mr J P Verplancke (appointed 14 January 2013)
 Mr R F Goulding (appointed 14 January 2013)

None of the directors have a beneficial or non-beneficial interest in the shares of the Company or in any of its subsidiary undertakings.

Details of directors' pay and benefits are disclosed in note 14 to the accounts.

All of the directors as at 31 December 2012, except for Dr T Miller are directors of the Company's ultimate holding company, Standard Chartered PLC, and their interests in the share capital of that company are shown in its report and accounts.

Mrs T J Clarke, Mr J P Verplancke and Mr R F Goulding are not directors of the Company's ultimate holding company, Standard Chartered PLC.

Directors' Interests in Standard Chartered PLC Ordinary Shares

Directors	At 1 January 2012 Total interests	At 31 December 2012 Total interests
T J Miller	193,010	193,010

Share Awards

Directors	Scheme	At 1 January 2012	Granted	Exercised	Lapsed	At 31 December 2012
T J Miller	PSP	140,959	-	99,855	41,104	-
	PSP	89,480	-	-	-	89,480
	PSA	95,033	-	-	-	95,033
	PSA	-	103,072	-	-	103,072
	Deferred RSS	17,722	-	17,722	-	-
	Deferred RSS	26,029	-	13,014	-	13,015
	Deferred RSS	29,792	900	10,229	-	20,463
	Deferred RSA	-	33,395	-	-	33,395
	Sharesave	1,040	-	-	-	1,040

Standard Chartered Bank

Report of the Directors continued

Definitions:

2011 Standard Chartered Share Plan (the 2011 Plan)

Approved by shareholders in May 2011 this is the Group's main share plan, applicable to all employees including executive directors with the flexibility to provide a variety of award types. The 2011 Plan is designed to deliver performance shares, deferred awards and restricted shares, giving us sufficient flexibility to meet the challenges of the changing regulatory and competitive environment. Discretionary share awards are a key part of both executive directors' and senior management's variable compensation and their significance as a proportion of potential total remuneration is one of the strongest indicators of our commitment to pay for sustainable performance and aligning reward with our risk horizon.

Performance share awards

Awards vest after a three year period and are subject to three equally weighted performance measures; Total Shareholder Return (TSR), Earnings per Share (EPS) and Return on Risk Weighted Assets (RoRWA).

Deferred awards

Deferral levels have increased in recent years in response to both the FSA requirements and to stay in line with market practice. For the 2012 performance year, elements of the annual performance award plan which are deferred will be delivered under the 2011 Plan. These awards will be subject to a three-year deferral period, vesting equally one third on each of the first, second and third anniversaries. Levels of deferral are not subject to an annual limit so as to ensure that regulatory requirements relating to deferral levels can be met and also reflect emerging market practices. Deferred awards are not be subject to any further performance criteria, although the claw-back policy will apply.

Restricted shares

Awards which are made outside of the annual performance process, as additional incentive or retention mechanisms are provided as restricted shares under the 2011 Plan. These awards vest in equal instalments on the second and the third anniversaries of the award date. In line with similar schemes operated by our competitors, our existing restricted share awards are not subject to an annual limit and do not have any performance conditions.

2000 Executive Share Option Scheme (2000 ESOS) – now closed to new grants

The Group previously operated the 2000 ESOS for executive directors and selected senior managers. Executive share options to purchase ordinary shares in Standard Chartered PLC were exercisable after the third, but before the tenth, anniversary of the date of grant subject to an EPS performance criteria being satisfied. The exercise price per share is the share price at the date of grant.

2001 Performance Share Plan (PSP) – now closed to new grants

The Group's previous plan for delivering performance shares was the PSP. Under the PSP half the award is dependent upon TSR performance and the balance is subject to a target of defined EPS growth. Both measures use the same three-year period and are assessed independently.

1997/2006 Restricted Share Scheme (2006 RSS)/ 2007 Supplementary Restricted Share Scheme (2007 SRSS) – closed to new grants

The Group's previous plans for delivering restricted shares were the 2006 RSS and 2007 SRSS both now replaced by the 2011 Plan. There are still unvested and vested awards outstanding under these plans Awards were generally be in the form of nil cost options and do not have any performance conditions. Generally deferred restricted share awards vest equally over three years and for non-deferred awards half vests two years after the date of grant and the balance after three years.

2004 Deferred Bonus Plan (DBP)

Under the DBP, shares are conditionally awarded as part of certain executive directors' annual performance award. Awards under the DBP are made in very limited circumstances to a small number of employees. The remaining life of the plan is two years.

All Employee Sharesave Plans (Sharesave)

Under the Sharesave plans, employees have the choice of opening a three-year or five-year savings contract. Within a period of six months after the third or fifth anniversary, as appropriate, employees may purchase ordinary shares in the Company at a discount of up to 20 per cent on the share price at the date of invitation. There are no performance conditions attached to options granted under sharesave.

Community Investment

The Group recognises its responsibility to invest in the communities where it operates and to act as a good corporate citizen. In 2012, the Group made a total investment of \$54.4 million (2011: \$47.4 million) in the communities in which it operates. This included direct financial support of \$17.8 million (2011: \$19.4 million), and indirect contributions, which comprise employee time; the donation of non-monetary goods and funds raised by our employees of \$37.8 million (2011: \$23.4 million).

Employees

The employment policies of the Company are designed to meet relevant social, statutory and market conditions and practices in each country where it operates. The Company communicates systematically with its employees on a wide range of issues, through briefings to managers, who are encouraged to hold subsequent meetings with staff and through circulars, publications and videos.

The Company recognises its social and statutory duty to employ disabled people and has followed a policy in the United Kingdom of providing the same employment opportunities for disabled people as for others wherever possible. If employees become disabled, every effort is made to ensure their continued employment with appropriate training where necessary.

Standard Chartered Bank

Report of the Directors continued

Risk management

The risk management objectives of the Group and Company including the policy for hedging risk is set out in note 17. The Group and Company's exposure to market risk, credit risk, liquidity risk and currency risk are set out in Risk review.

Significant contracts

There were no contracts of significance during the year in which any of the directors were materially interested.

Areas of operation

The Company operates through branches and subsidiaries in Asia Pacific, the Middle East, South Asia, Africa, Europe, the United Kingdom and the Americas.

Creditor payment policy

Operating businesses are responsible for agreeing the terms and conditions with their suppliers in the economies where they conduct business. It is the Company's policy to pay creditors when the amounts fall due for payment. For Standard Chartered Bank in the United Kingdom at 31 December 2012 there were 34 days purchases outstanding.

Environmental policy

The Company recognises that it should minimise any adverse impact of the conduct of its business on the environment. It therefore aims to manage its businesses according to best practice with regard to the use of energy and other resources and by disposing of waste responsibly, by encouraging its customers to ensure that their products, processes and businesses do not damage the environment unnecessarily and by taking environmental considerations into account in business decisions.

Qualifying Third Party Indemnities

Standard Chartered PLC, the Company's ultimate holding company has granted qualifying third party indemnities to the directors of the Company. These indemnities remain in force at the time of this report. The Company itself has not granted any qualifying third party indemnities to the directors.

Social, Ethical and Environmental Responsibilities

The Group complies with the guidelines issued by the Association of British Insurers on responsible investment disclosure and is committed to the communities and environments in which it operates. The Court is the equivalent of the Board of Directors for Standard Chartered Bank. The Court is responsible for ensuring that high standards of responsible business are maintained and that an effective control framework is in place. The Group has established and maintains policies and procedures in relation to SEE related risks. Through the Group's risk management structure and control framework, the Court receives regular and adequate information to identify and assess significant risks and opportunities arising from SEE matters.

Designated policy owners monitor risks in their area. They also work with line management to assist them in designing procedures to ensure compliance with these requirements. In every country, the Country Management Committee ('MANCO') supported by the Country Operational Risk Group ('CORG') is responsible for ensuring there are risk management frameworks in place to monitor, manage and report SEE risk. The Country Chief Executives chair both the MANCOs and CORGs.

Compliance with these policies and procedures is the responsibility of all managers. In assessing, incentivising and rewarding performance, guidance to managers was published during 2002. This explicitly states that account should be taken of adherence to all relevant Group policies, including those associated with SEE risk. Significant exceptions and emerging risks are escalated to senior management through clearly documented internal reporting procedures such as MANCO.

Key areas of risk are those associated with customers' activities and potential impacts on the natural environment. The Court recognises its responsibility to manage these risks and that failure to manage them adequately would have an adverse impact on the Group's business. These risks are recognised in reaching lending decisions explicitly identified in the Group's lending policies. The Group has adopted the revised Equator Principles 2 that set procedures, based on the International Finance Corporation guidelines, for recognising the environmental and social impacts and risks associated with project finance. The Principles have been embedded in the Group's project finance lending policy and procedures.

The Group continues to review and, where appropriate, strengthen its money laundering prevention policies, procedures and training. The Court is not aware of any material exceptions to its policies.

Auditor

KPMG Audit Plc have agreed to continue as the Company's auditor and a resolution for its re-appointment will be proposed at this year's annual general meeting.

The directors have taken all necessary steps to make themselves and KPMG Audit Plc aware of any information needed in performing the audit of the 2012 Annual Report and Accounts and as far as each of the directors is aware, there is no relevant audit information of which KPMG Audit Plc is unaware.

By order of the Court



Annemarie Durbin
Secretary
5 March 2013
Company Reference Number:ZC18

Standard Chartered Bank

Statement of Directors' Responsibilities in respect of the Financial Statements

The directors are responsible for preparing the Report of the Directors and the Group and Company financial statements in accordance with applicable law and regulations.

Company law requires the directors to prepare Group and Company financial statements for each financial year. Under that law they are required to prepare the Group and Company financial statements in accordance with IFRSs as adopted by the EU and applicable law.

Under company law the directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the Group and Company and of their profit or loss for that period. In preparing each of the Group and Bank financial statements, the directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgments and estimates that are reasonable and prudent;
- state whether they have been prepared in accordance with IFRSs as adopted by the EU; and
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the Group and the Company will continue in business.

The directors are responsible for keeping adequate accounting records that are sufficient to show and explain the Company's transactions and disclose with reasonable accuracy at any time, the financial position of the Company and enable them to ensure that its financial statements comply with the Companies Act 2006. They have general responsibility for taking such steps as are reasonably open to them to safeguard the assets of the Group and to prevent and detect fraud and other irregularities.

Directors' responsibility statement

The directors confirm to the best of their knowledge:

1. the financial statements prepared in accordance with IFRSs as adopted by the EU, give a true and fair view of the assets, liabilities, financial position and profit of the Company and the undertakings included in the consolidation as a whole; and
2. the management reports, which are incorporated into the report of the directors, includes a fair review of the development and performance of the business and the position of the Company and the undertakings included in the consolidation as a whole, together with the principal risks and uncertainties they face.

By order of the Court



R H Meddings
Director
5 March 2013

Standard Chartered Bank

Independent Auditor's Report to the members of Standard Chartered Bank

We have audited the financial statements of the Group (Standard Chartered Bank and its subsidiaries) and Bank (Standard Chartered Bank) (together referred to as the 'financial statements') for the year ended 31 December 2012 set out on pages 91 to 196. The financial reporting framework that has been applied in their preparation is applicable law and International Financial Reporting Standards (IFRSs) as adopted by the EU and, as regards the Bank's financial statements, as applied in accordance with the provisions of the Companies Act 2006.

This report is made solely to the Bank's members, as a body, in accordance with Chapter 3 of Part 16 of the Companies Act 2006. Our audit work has been undertaken so that we might state to the Bank's members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Group and the Bank's members, as a body, for our audit work, for this report, or for the opinions we have formed.

Respective responsibilities of directors and auditor

As explained more fully in the Statement of directors' responsibilities set out on page 89, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view. Our responsibility is to audit, and express an opinion on, the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's (APB's) Ethical Standards for Auditors.

Scope of the audit of the financial statements

A description of the scope of an audit of financial statements is provided on the Financial Reporting Council's website www.frc.org.uk/auditscopeukprivate.

Opinion on financial statements

In our opinion:

- the financial statements give a true and fair view of the state of the Group's and of the Bank's affairs as at 31 December 2012 and of the Group's profit for the year then ended;
- the Group financial statements have been properly prepared in accordance with IFRSs as adopted by the EU;
- the Bank's financial statements have been properly prepared in accordance with IFRSs as adopted by the EU and as applied in accordance with the provisions of the Companies Act 2006; and
- the financial statements have been prepared in accordance with the requirements of the Companies Act 2006.

Opinion on other matters prescribed by the Companies Act 2006

In our opinion the information given in the Directors' Report which include information presented in the Financial Review that are cross referenced from the Report of Directors, for the financial year for which the financial statements are prepared is consistent with the financial statements.

Matters on which we are required to report by exception

We have nothing to report in respect of the following matters where the Companies Act 2006 requires us to report to you if, in our opinion:

- adequate accounting records have not been kept by the Bank, or returns adequate for our audit have not been received from branches not visited by us; or
- the Bank's financial statements are not in agreement with the accounting records and returns; or
- certain disclosures of directors' remuneration specified by law are not made; or
- we have not received all the information and explanations we require for our audit.



John Hughes (Senior Statutory Auditor)
for and on behalf of KPMG Audit Plc, Statutory Auditor
Chartered Accountants
15 Canada Square
London E14 5GL
5 March 2013

Standard Chartered Bank

Consolidated income statement

For the year ended 31 December 2012

	Notes	2012 \$million	2011 \$million
Interest income	3	18,258	16,584
Interest expense	4	(7,253)	(6,418)
Net interest income		11,005	10,166
Fees and commission income	5	4,621	4,469
Fees and commission expense	5	(504)	(426)
Net trading income	6	2,769	2,679
Other operating income	7	1,102	793
Non-interest income		7,988	7,515
Operating income		18,993	17,681
Staff costs	8	(6,577)	(6,662)
Premises costs	8	(886)	(862)
General administrative expenses	8	(2,758)	(1,804)
Depreciation and amortisation	9	(687)	(639)
Operating expenses		(10,908)	(9,967)
Operating profit before impairment losses and taxation		8,085	7,714
Impairment losses on loans and advances and other credit risk provisions	10	(1,221)	(908)
Other impairment	11	(194)	(111)
Profit from associates		116	74
Profit before taxation		6,786	6,769
Taxation	12	(1,856)	(1,848)
Profit for the year		4,930	4,921
Profit attributable to:			
Non-controlling interests	36	655	650
Parent company shareholders		4,275	4,271
Profit for the year		4,930	4,921

The notes on pages 98 to 196 form an integral part of these financial statements.

Standard Chartered Bank

Consolidated statement of comprehensive income

For the year ended 31 December 2012

	Notes	2012 \$million	2011 \$million
Profit for the year		4,930	4,921
Other comprehensive income:			
Item that will not be reclassified to Income statement:			
Actuarial losses on retirement benefit obligations	34	(76)	(189)
Items that may be reclassified subsequently to Income statement:			
Exchange differences on translation of foreign operations:			
Net gains/(losses) taken to equity		575	(1,012)
Net (losses)/gains on net investment hedges		(73)	5
Share of comprehensive income from associates		(2)	1
Available-for-sale investments:			
Net valuation gains/(losses) taken to equity		1,056	(212)
Reclassified to income statement		(339)	(267)
Cash flow hedges:			
Net gains taken to equity		133	4
Reclassified to income statement		(20)	(94)
Taxation relating to components of other comprehensive income	12	(132)	98
Other comprehensive income for the year, net of taxation		1,122	(1,666)
Total comprehensive income for the year		6,052	3,255
Attributable to:			
Non-controlling interests	36	684	508
Parent company shareholders		5,368	2,747
		6,052	3,255

The notes on pages 98 to 196 form an integral part of these financial statements.

Standard Chartered Bank

Consolidated balance sheet

As at 31 December 2012

	Notes	2012 \$million	2011 ¹ \$million
Assets			
Cash and balances at central banks	15, 39	61,043	47,364
Financial assets held at fair value through profit or loss	15, 16	27,084	24,828
Derivative financial instruments	15, 17	49,496	58,567
Loans and advances to banks	15, 18	68,380	65,980
Loans and advances to customers	15, 19	283,885	266,790
Investment securities	15, 21	99,413	85,283
Other assets	15, 22	28,745	27,149
Current tax assets		215	232
Prepayments and accrued income		2,581	2,521
Interests in associates	23	953	903
Goodwill and intangible assets	25	6,954	6,721
Property, plant and equipment	26	6,646	5,078
Deferred tax assets	27	691	835
Total assets		636,086	592,251
Liabilities			
Deposits by banks	15, 28	36,477	35,296
Customer accounts	15, 29	377,639	345,726
Financial liabilities held at fair value through profit or loss	15, 16	23,064	19,599
Derivative financial instruments	15, 17	48,194	57,118
Debt securities in issue	15, 30	41,445	35,766
Other liabilities	15, 31	24,508	23,769
Due to parent companies		15,096	13,627
Current tax liabilities		1,208	1,088
Accruals and deferred income		4,611	4,332
Subordinated liabilities and other borrowed funds	15, 32	23,084	19,462
Deferred tax liabilities	27	161	130
Provisions for liabilities and charges	33	215	369
Retirement benefit obligations	34	504	519
Total liabilities		596,206	556,801
Equity			
Share capital	35	12,054	12,054
Reserves		24,245	20,251
Total parent company shareholders' equity		36,299	32,305
Non-controlling interests	36	3,581	3,145
Total equity		39,880	35,450
Total equity and liabilities		636,086	592,251

¹ Amounts have been restated as explained in note 46.

The notes on pages 98 to 196 form an integral part of these financial statements.

These financial statements were approved by the Court of Directors and authorised for issue on 5 March 2013 and signed on its behalf by:



P A Sands
Director

R H Meddings
Director

Standard Chartered Bank

Consolidated statement of changes in equity

For the year ended 31 December 2012

	Share capital	Share premium account	Capital and Capital redemption reserve ¹	Available-for-sale reserve	Cash flow hedge reserve	Translation reserve	Retained earnings	Parent company shareholders equity	Non-controlling interests	Total
	\$million	\$million	\$million	\$million	\$million	\$million	\$million	\$million	\$million	\$million
At 1 January 2011	11,687	1,796	40	326	64	(428)	16,821	30,306	3,054	33,360
Profit for the year	-	-	-	-	-	-	4,271	4,271	650	4,921
Other comprehensive income	-	-	-	(365)	(77)	(1,001)	(81) ²	(1,524)	(142)	(1,666)
Distributions	-	-	-	-	-	-	-	-	(437)	(437)
Shares issued, net of expenses	367	-	-	-	-	-	-	367	-	367
Deemed capital contribution ⁴	-	-	-	-	-	-	430	430	-	430
Taxation on share option expense	-	-	-	-	-	-	59	59	-	59
Dividends	-	-	-	-	-	-	(1,212)	(1,212)	-	(1,212)
Deemed distribution to parent	-	-	-	-	-	-	(392)	(392)	-	(392)
Other increases	-	-	-	-	-	-	-	-	20	20
At 31 December 2011	12,054	1,796	40	(39)	(13)	(1,429)	19,896	32,305	3,145	35,450
Profit for the year	-	-	-	-	-	-	4,275	4,275	655	4,930
Other comprehensive income	-	-	-	527	90	499	(23) ³	1,093	29	1,122
Distributions	-	-	-	-	-	-	-	-	(256)	(256)
Shares issued, net of expenses	-	-	-	-	-	-	-	-	-	-
Deemed capital contribution ⁴	-	-	-	-	-	-	451	451	-	451
Taxation on share option expense	-	-	-	-	-	-	22	22	-	22
Dividends	-	-	-	-	-	-	(1,473)	(1,473)	-	(1,473)
Deemed distribution to parent	-	-	-	-	-	-	(374)	(374)	-	(374)
Other increases	-	-	-	-	-	-	-	-	8	8
At 31 December 2012	12,054	1,796	40	488	77	(930)	22,774	36,299	3,581	39,880

¹ Includes capital reserve of \$5 million, capital redemption reserve of \$35 million at 1 January 2011, 31 December 2011 and 2012.

² Comprises actuarial losses, net of taxation and non-controlling interest share, of \$82 million and share of comprehensive income from associates of \$1 million.

³ Includes actuarial losses, net of taxation and non-controlling interest share, of \$23 million.

⁴ Comprises deemed capital contribution from parent arising from share based payment of \$374 million (2011: \$430 million) and debt waiver of \$77 million (2011: nil).

Note 35 includes a description of each reserve.

The notes on pages 98 to 196 form an integral part of these financial statements.

Standard Chartered Bank

Cash flow statement

For the year ended 31 December 2012

	Notes	Group		Company	
		2012 \$million	2011 \$million	2012 \$million	2011 \$million
Cash flows from operating activities					
Profit before taxation		6,786	6,769	3,564	4,014
Adjustments for:					
Non-cash items included within income statement	38	2,395	2,667	33	446
Change in operating assets	38	(15,846)	(79,912)	(13,526)	(53,449)
Change in operating liabilities	38	26,735	93,734	25,585	68,197
Contributions to defined benefit schemes		(204)	(77)	(83)	(36)
UK and overseas taxes paid		(1,700)	(1,618)	(811)	(1,029)
Net cash from operating activities		18,166	21,563	14,762	18,143
Net cash flows from investing activities					
Purchase of property, plant and equipment		(168)	(286)	(61)	(143)
Disposal of property, plant and equipment		195	139	30	54
Acquisition of investment in subsidiaries, associates and joint ventures, net of cash acquired		(63)	(906)	(131)	(1,642)
Disposal and redemption of investment in subsidiaries		-	-	830	3,911
Purchase of investment securities	21	(157,325)	(131,260)	(40,006)	(45,121)
Disposal and maturity of investment securities	21	145,905	119,831	35,714	35,143
Dividends received from investment in subsidiaries and associates		14	10	1,237	940
Net cash used in investing activities		(11,442)	(12,472)	(2,387)	(6,858)
Net cash flows from financing activities					
Issue of ordinary and preference share capital, net of expenses		-	367	-	367
Interest paid on subordinated liabilities		(739)	(738)	(651)	(651)
Gross proceeds from issue of subordinated liabilities		4,978	2,229	4,810	1,300
Repayment of subordinated liabilities		(1,667)	(540)	(1,173)	(500)
Interest paid on senior debts		(61)	(539)	4	371
Gross proceeds from issue of senior debts		8,542	11,741	-	5,046
Repayment of senior debts		(5,938)	(9,155)	-	(5,254)
Dividends paid to non-controlling interests and preference shareholders		(356)	(538)	(101)	(101)
Dividends paid to ordinary shareholders		(1,373)	(1,111)	(1,372)	(1,111)
Net cash from/(used in) financing activities		3,386	1,716	1,517	(533)
Net increase in cash and cash equivalents		10,110	10,807	13,892	10,752
Cash and cash equivalents at beginning of year		70,450	59,734	46,866	36,272
Effect of exchange rate movements on cash and cash equivalents		40	(91)	(93)	(158)
Cash and cash equivalents at end of year	39	80,600	70,450	60,665	46,866

The notes on pages 98 to 196 form an integral part of these financial statements.

Standard Chartered Bank

Company balance sheet

As at 31 December 2012

	Notes	2012 \$million	Singapore subsidiarisation \$million	2012 Revised \$million	2011 ¹ \$million
Assets					
Cash and balances at central banks	15, 39	49,655	(600)	49,055	36,268
Financial assets held at fair value through profit or loss	15, 16	17,027	-	17,027	13,586
Derivative financial instruments	15, 17	47,443	-	47,443	56,929
Loans and advances to banks	15, 18	37,250	-	37,250	36,972
Loans and advances to customers	15, 19	137,982	(21,300)	116,682	123,273
Investment securities	15, 21	43,615	(3,700)	39,915	38,416
Other assets	15, 22	18,779	-	18,779	16,058
Due from subsidiary undertakings and other related parties		18,029	-	18,029	16,490
Current tax assets		37	-	37	47
Prepayments and accrued income		1,170	-	1,170	1,203
Investment in subsidiary undertakings	23	13,571	-	13,571	14,270
Investment in joint ventures	23	489	-	489	396
Investment in associates	23	45	-	45	53
Goodwill and intangible assets	25	1,031	-	1,031	933
Property, plant and equipment	26	626	-	626	685
Deferred tax assets	27	571	-	571	519
Assets classified as held for sale	45	-	25,600	25,600	-
Total assets		387,320	-	387,320	356,098
Liabilities					
Deposits by banks	15, 28	28,375	-	28,375	27,933
Customer accounts	15, 29	169,882	(24,900)	144,982	150,772
Financial liabilities held at fair value through profit or loss	15, 16	11,501	-	11,501	6,855
Derivative financial instruments	15, 17	45,997	-	45,997	55,703
Debt securities in issue	15, 30	31,959	-	31,959	24,923
Other liabilities	15, 31	11,738	(500)	11,238	11,019
Due to subsidiary undertakings and other related parties		39,244	-	39,244	36,014
Current tax liabilities		812	-	812	697
Accruals and deferred income		2,501	-	2,501	2,339
Subordinated liabilities and other borrowed funds	15, 32	20,107	-	20,107	16,288
Deferred tax liabilities	27	74	-	74	52
Provisions for liabilities and charges	33	133	-	133	125
Retirement benefit obligations	34	365	-	365	324
Liabilities classified as held for sale	45	-	25,400	25,400	-
Total liabilities		362,688	-	362,688	333,044
Equity					
Share capital	35	12,054	-	12,054	12,054
Reserves		12,578	-	12,578	11,000
Total parent company shareholders' equity		24,632	-	24,632	23,054
Total equity and liabilities		387,320	-	387,320	356,098

¹ Amounts have been restated as explained in note 46.

The notes on pages 98 to 196 form an integral part of these financial statements.

These financial statements were approved by the Court of Directors and authorised for issue on 5 March 2013 and signed on its behalf by:



P A Sands
Director



R H Meddings
Director

Standard Chartered Bank

Company statement of changes in equity

For the year ended 31 December 2012

	Share capital	Share premium account	Capital and Capital redemption reserve ¹	Available-for-sale reserve	Cash flow hedge reserve	Translation reserve	Retained earnings	Total
	\$million	\$million	\$million	\$million	\$million	\$million	\$million	\$million
At 1 January 2011	11,687	1,796	40	(50)	70	416	7,840	21,799
Profit for the year	-	-	-	-	-	-	2,849	2,849
Other comprehensive income	-	-	-	(18)	(87)	(623)	(90)	(818)
Shares issued, net of expenses	367	-	-	-	-	-	-	367
Taxation on share option expense	-	-	-	-	-	-	59	59
Deemed capital contribution ²	-	-	-	-	-	-	317	317
Deemed distribution to parent	-	-	-	-	-	-	(307)	(307)
Dividends	-	-	-	-	-	-	(1,212)	(1,212)
At 31 December 2011	12,054	1,796	40	(68)	(17)	(207)	9,456	23,054
Profit for the year	-	-	-	-	-	-	2,754	2,754
Other comprehensive income	-	-	-	237	90	(80)	(58)	189
Taxation on share option expense	-	-	-	-	-	-	22	22
Deemed capital contribution ²	-	-	-	-	-	-	353	353
Deemed distribution to parent	-	-	-	-	-	-	(275)	(275)
Capitalised on scrip dividend	-	-	-	-	-	-	-	-
Dividends	-	-	-	-	-	-	(1,473)	(1,473)
Other movement	-	-	-	-	-	-	8	8
At 31 December 2012	12,054	1,796	40	169	73	(287)	10,787	24,632

¹ Includes capital reserve of \$5 million, capital redemption reserve of \$35 million at 1 January 2011, 31 December 2011 and 2012.

² Comprises deemed capital distribution from parent arising from share based payments of \$276 million (2011: \$317 million) and debt waiver of \$77 million (2011: nil).

Note 35 includes a description of each reserve.

The notes on pages 98 to 196 form an integral part of these financial statements.

Standard Chartered Bank

Notes to the financial statements

1. Accounting policies

(a) Statement of compliance

The Group financial statements consolidate those of Standard Chartered Bank (the Company) and its subsidiaries (together referred to as the Group), equity account the Group's interest in associates and proportionately consolidate interests in jointly controlled entities. The parent company financial statements present information about the Company as a separate entity and not about its group.

Both the parent company financial statements and the Group financial statements have been prepared and approved by the directors in accordance with International Financial Reporting Standards (IFRS) and IFRS Interpretations Committee (IFRIC) interpretations as endorsed by the European Union (EU). EU endorsed IFRS may differ from IFRS published by the International Accounting Standards Board (IASB) if a standard has not been endorsed by the EU.

In publishing the parent company financial statements together with the Group financial statements, the Company has taken advantage of the exemption in section 408 of the Companies Act 2006 not to present its individual statement of comprehensive income and related notes that form a part of these approved financial statements.

The following parts of the Financial risk management section form part of these financial statements: from the start of "Financial risk management" on page 14 to the end of "Operational risk" on page 82, with the exception of the "Asset backed securities" and "The impact of Basel III" sections on pages 59 and 72 respectively.

(b) Basis of preparation

The consolidated financial statements have been prepared under the historical cost convention, as modified by the revaluation of cash-settled share based payments, available-for-sale assets, and financial assets and liabilities (including derivatives) at fair value through profit or loss. The Company financial statements have been prepared on a historical cost basis, as modified by cash settled share based payments and the revaluation of financial assets and liabilities (including derivatives) at fair value through profit or loss.

(c) Significant accounting estimates and judgements

In determining the carrying amounts of certain assets and liabilities, the Group makes assumptions of the effects of uncertain future events on those assets and liabilities at the balance sheet date. The Group's estimates and assumptions are based on historical experience and expectation of future events and are reviewed periodically. Further information about key assumptions concerning the future, and other key sources of estimation uncertainty, are set out in the relevant disclosure notes for the following areas:

- Loan loss provisioning
- Taxation (refer to note 12)
- Fair value of financial instruments (refer to note 15)
- Goodwill impairment (refer to note 25)
- Provisions for liabilities and charges (refer to note 33)
- Pensions (refer to note 34)
- Share based payments (refer to note 37)

(d) Fiduciary activities

The Group commonly acts as trustee and in other fiduciary capacities that result in the holding or placing of assets on behalf of individuals, trusts, retirement benefit plans and other institutions. The assets and income arising thereon are excluded from these financial statements, as they are not assets and income of the Group.

(e) New accounting standards adopted by the Group

The Group adopted the following amendments to existing accounting standards from 1 January 2012. These amendments have been endorsed by the EU and do not have a material impact on the Group.

Amendments to *IFRS 7 Financial Instruments: Disclosure* requires additional disclosures when an asset is transferred but is not derecognised. These amendments also require disclosure of assets that are derecognised but where the entity continues to have a continuing exposure to the asset after sale. Refer to note 15 for the Group's disclosure with respect to transferred assets.

Amendments to *IAS 12 Income Taxes* provides a practical approach for measuring deferred tax liabilities and deferred tax assets when it would be difficult and subjective to determine the expected manner of recovery.

The Group has early adopted amendments to *IAS 1 Presentation of Financial Statements* before their mandatory application date of 1 January 2013. These amendments change the grouping of items presented within Other Comprehensive Income (OCI) such that the potential impact that OCI items may have on future profit or loss can be more easily identified. Items that are eligible for reclassification to the income statement at a future point in time (for example, upon derecognition or settlement) are presented separately from items which will never be reclassified. These amendments are required to be applied retrospectively.

(f) Forthcoming accounting standards and interpretations – issued but not effective

At 31 December 2012, a number of accounting standards, interpretations and amendments had been issued by the International Accounting Standards Board, which are not yet effective for the Group or Company financial statements. Those which are expected to have a significant effect on the Group and Company financial statements in future years are discussed below.

The use of IFRS and certain IFRIC Interpretations that have yet to be endorsed by the EU is not permitted.

Accounting standards effective 1 January 2013

The EU has endorsed *IFRS 10 Consolidated Financial Statements*, *IFRS 11 Joint Arrangements*, *IFRS 12 Disclosure of Interests in Other Entities*, *IAS 27 Separate Financial Statements*, *IAS 28 Investments in Associates and Joint Ventures*, for application from 1 January 2014. Though this is one year later than the mandatory adoption date required by the IASB of 1 January 2013, the EU has permitted early adoption and the Group intends to early apply these five standards from 1 January 2013. *IFRS 10* and *11*, *IAS 27* and *28* require retrospective application while *IFRS 12* is applied prospectively.

IFRS 10 replaces the current guidance on consolidation in *IAS 27 Consolidated and Separate Financial Statements* and *SIC-12 Special Purpose Entities*. It introduces a single model of assessing control whereby an investor controls an investee when it has the power, exposure to variable returns and the ability to use its power to influence the returns of the investee. *IFRS 10* also includes specific guidance on de facto control, protective rights and the determination of whether a decision maker is acting as principal or agent, all of which influence the assessment of control. The application of *IFRS 10* is not expected to have a material impact on the Group.

Standard Chartered Bank

Notes to the financial statements continued

1. Accounting policies continued

IFRS 11 replaces IAS 31 *Interests in Joint Ventures*. It requires all joint ventures to be equity accounted thereby removing the option in IAS 31 for proportionate consolidation. It also removes the IAS 31 concept of jointly controlled assets. As a result, the Group's joint venture investment in PT Bank Permata Tbk (Permata) which is currently proportionately consolidated, will be accounted for using the equity method under IFRS 11. This change is not expected to have a material impact on the Group and further details on the Group's interest in Permata are provided in note 23.

IFRS 12 prescribes additional disclosures around significant judgements and assumptions made in determining whether an entity controls another entity and has joint control or significant influence over another entity. The standard also requires disclosures on the nature and risks associated with interests in unconsolidated structured entities. These disclosures will be provided in the financial statements for the year ending 31 December 2013.

IFRS 13 *Fair Value Measurement* consolidates the guidance on how to measure fair value, which is presently spread across various IFRSs, into one comprehensive standard. It introduces the use of an exit price, as well as extensive disclosure requirements, particularly the inclusion of non-financial instruments into the fair value hierarchy. IFRS 13 is required to be applied prospectively. The most significant impact of applying IFRS 13 is the mandatory requirement for the fair value of derivative liabilities and other liabilities held at fair value through profit or loss to take into account an adjustment for an entity's own credit risk. The precise impact of this adjustment depends on the market conditions and the Group's holdings of financial instruments at the reporting date. IFRS 13 has been endorsed by the EU.

IAS 19 *Employee Benefits (Revised)*, introduces significant changes in the recognition, presentation and disclosure of defined benefit plans. The most significant impact on the Group as a result of these revisions comes in the form of the rate used to discount the plan assets. Where this rate is presently based on the expected return on each class of pension assets, from 1 January 2013, assets will be measured based on a AA rated corporate bond yield, which aligns to the rate at which the liability is discounted. It also makes changes to termination benefits as well as enhancing disclosure requirements and is required to be applied retrospectively. The effect of these changes on total operating expenses and pre-tax profit is not expected to be material and will depend on market interest rates, rates of return and the actual mix of scheme assets at that time. These revisions to IAS 19 have been endorsed by the EU.

Amendments to IFRS 7 *Financial Instruments: Disclosure*, require disclosure of the effect or potential effect of netting financial assets and financial liabilities on an entity's financial position. This includes financial instruments transacted under enforceable master netting arrangements or other similar agreements. The amendments are required to be applied retrospectively and have been endorsed by the EU.

Accounting standards effective 1 January 2014

Amendment to IAS 32 *Financial Instruments: Presentation* clarifies the requirements for offsetting financial assets and liabilities and addresses inconsistencies noted in current practice when applying the offsetting criteria in IAS 32. These amendments require retrospective application, can be early adopted and have been endorsed by the EU.

Investment Entities (amendments to IFRS 10, IFRS 12 and IAS 27), requires entities meeting the definition of an investment entity to not consolidate its subsidiaries or apply IFRS 3 Business Combinations when it obtains control of another entity. An investment entity is defined as an entity that:

- obtains funds from one or more investor for the purpose of providing those investor(s) with investment management services;
- commits to its investor(s) that its business purpose is to invest funds solely for returns from capital appreciation, investment income, or both, and;
- measures and evaluates the performance of substantially all of its investments on a fair value basis

Entities not meeting the definition of an investment entity, including the parent company of an eligible investment entity, will continue to consolidate all subsidiaries. The investment entity consolidation exemption is not expected to have a material impact on the Group. This exemption had not been endorsed by the EU as at 31 December 2012.

Accounting standards effective 1 January 2015

IFRS 9 *Financial Instruments*

IFRS 9 will eventually replace IAS 39 *Financial Instruments: Recognition and Measurement* and introduce new requirements for the classification and measurement of financial assets and financial liabilities. When completed, IFRS 9 will introduce a new model for recognising loan loss provisions based on expected losses, to replace the current model in IAS 39 which measures loan loss provisions based on incurred losses and provide for simplified hedge accounting by aligning hedge accounting more closely with an entity's risk management methodology in addition to now permitting risk components of non-financial items to be hedged. As at 31 December 2012, only the classification and measurement phase of IFRS 9 had been published. The EU has indicated that it would not endorse IFRS 9 for use until all components have been completed. Given the uncertainty which surrounds the final form of IFRS 9, the Group is not in a position to quantify the impact of this accounting standard.

Classification and measurement

IFRS 9 as published operates a binary classification model whereby financial assets and liabilities are classified either at amortised cost or at fair value. Amortised cost classification is only permitted where the asset is held within a business model whose objective is to hold assets in order to collect contractual cash flows and where these contractual cash flows are solely payment of principal and interest. In all other cases the financial asset is classified and measured at fair value through profit or loss. Fair value movements on non-trading equity instruments may be presented in other comprehensive income, though these cannot be recycled to the income statement upon disposal of the equity instrument.

Financial liabilities are required to be measured at fair value or amortised cost as is the case under IAS 39, except that the change in fair value relating to own credit is reported within other comprehensive income and not the income statement.

In November 2012, the IASB issued an exposure draft of limited amendments to the classification and measurement requirements of IFRS 9 which proposed introducing a third classification category where, subject to qualifying criteria, fair value changes on debt instruments would be measured through reserves and will be eligible for recycling.

Standard Chartered Bank

Notes to the financial statements continued

1. Accounting policies continued

Impairment

The IASB continues to debate proposals around recognising credit losses based on an expected loss approach. Based on its most recent deliberations, the Board has indicated that it will proceed with a methodology whereby either 12 months' expected losses or lifetime expected losses would be measured depending on whether certain criteria for recognising lifetime expected losses are met including whether or not the asset deteriorates below 'investment grade'. The IASB is expected to issue a new exposure draft on impairment for financial assets held at amortised cost in the first quarter of 2013.

Hedge accounting

The IASB has split the hedge accounting phase into two parts: general hedging and macro hedging. The Board issued a review draft of a general hedging standard in September 2012, which seeks to deliver a more principles based standard that aligns hedge accounting more closely with risk management. This includes, amongst others, assessing hedge effectiveness through qualitative, forward looking assessments rather than using bright lines and hedging risk components of non-financial items. This part is expected to be completed in the first quarter of 2013. A discussion paper on macro hedging is expected in the first half of 2013.

(g) IFRS and Hong Kong accounting requirements

As required by the Hong Kong Listing Rules, an explanation of the differences in accounting practices between EU endorsed IFRS and Hong Kong Financial Reporting Standards is required to be disclosed. There would be no significant differences had these accounts been prepared in accordance with Hong Kong Financial Reporting Standards.

(h) Prior period restatements

Details of prior period restatements are set out in note 46.

The accounting policies set out below have been applied consistently across the Group and to all periods presented in these financial statements.

(i) Consolidation

Subsidiaries

Subsidiaries are all entities, including special purpose entities (SPEs), over which the Group has the power to directly or indirectly govern the financial and operating policies, generally accompanying a shareholding of more than one half of the voting rights. Subsidiaries are fully consolidated from the date on which the Group effectively obtains control. They are de-consolidated from the date that control ceases, and where any interest in the subsidiary remains, this is remeasured to its fair value and the change in carrying amount is recognised in the income statement. Details of the Group's principal subsidiaries are given in note 23.

SPEs are consolidated when the substance of the relationship between the Group and the SPE indicates control by the Group. Potential indicators of control include an assessment of risks and benefits in respect of the SPE's activities. This assessment includes consideration of the following conditions:

- where the SPE's activities are conducted on behalf of the Group according to specific business needs, such that the Group obtains benefits from the SPE's operations;
- where the Group has the decision-making powers to obtain the majority of the benefits of the activities of the SPE or, by setting up an 'autopilot' mechanism, the Group has delegated these decision-making powers;

- where the Group has rights to obtain the majority of the benefits of the SPE and therefore may be exposed to risks incident to the activities of the SPE; or
- where the Group retains the majority of the residual or ownership risks related to the SPE or its assets in order to obtain benefits from its activities.

Details on the Group's use of SPEs are set out in note 43.

Associates and jointly controlled entities

Associates are all entities over which the Group has the ability to significantly influence, but not control, the financial and operating policies and procedures generally accompanying a shareholding of between 20 per cent and 50 per cent of the voting rights. Details of the Group's interest in associates are provided in note 23.

Investments in associates are accounted for by the equity method of accounting and are initially recognised at cost. The Group's investment in associates includes goodwill identified on acquisition (net of any accumulated impairment loss).

The Group's share of its associates' post-acquisition profits or losses is recognised in the income statement, and its share of post-acquisition movements in other comprehensive income is recognised in reserves. The cumulative post-acquisition movements are adjusted against the carrying amount of the investment. When the Group's share of losses in an associate equals or exceeds its interest in the associate, including any other unsecured receivables, the Group does not recognise further losses, unless it has incurred obligations or made payments on behalf of the associate.

Unrealised gains and losses on transactions between the Group and its associates are eliminated to the extent of the Group's interest in the associates.

At each balance sheet date the Group assesses whether there is any objective evidence of impairment in the investment in associates, evidence of objective evidence is a significant or prolonged decline in the fair value of the Group's investment in an associate below its cost is considered, amongst other factors in assessing objective evidence of impairment for associates.

Unrealised gains and losses on transactions between the Group and its associates are eliminated to the extent of the Group's interest in the associates.

Jointly controlled entities

Interests in jointly controlled entities are recognised using proportionate consolidation whereby the Group's share of the joint venture's assets, liabilities, income and expenses are combined line by line with similar items in the Group's financial statements. Further details on the Group's joint venture investment are provided in note 23.

Goodwill recognised on jointly controlled entities is assessed similar to goodwill arising on consolidation of subsidiaries.

Investment in subsidiaries, associates and joint ventures

In the Company's financial statements, investment in subsidiaries, associates and joint ventures are held at cost less impairment and dividends from pre-acquisition profits received prior to 1 January 2009, if any.

Inter-company transactions, balances and unrealised gains and losses on transactions between Group companies are eliminated in the Group accounts.

Standard Chartered Bank

Notes to the financial statements continued

1. Accounting policies continued

Business combinations

The acquisition method of accounting is used to account for the acquisition of subsidiaries by the Group. Note 24 provides details on business combinations entered into by the Group during 2012.

The cost of an acquisition is measured as the fair value of the assets given, equity instruments issued and liabilities incurred or assumed at the date of exchange, together with the fair value of any contingent consideration payable. The excess of the cost of acquisition over the fair value of the Group's share of the identifiable net assets and contingent liabilities acquired is recorded as goodwill (see note 25 for details on goodwill recognised by the Group). If the cost of acquisition is less than the fair value of the net assets and contingent liabilities of the subsidiary acquired, the difference is recognised directly in the income statement.

Where the fair values of the identifiable net assets and contingent liabilities acquired have been determined provisionally, or where contingent or deferred consideration is payable, adjustments arising from their subsequent finalisation are not reflected in the income statement if (i) they arise within 12 months of the acquisition date and (ii) the adjustments arise from better information about conditions existing at the acquisition date (measurement period adjustments). Such adjustments are applied as at the date of acquisition and if applicable, prior period amounts are restated. All changes that are not measurement period adjustments are reported in income other than changes in contingent consideration not classified as financial instruments, which are accounted for in accordance with the appropriate accounting policy, and changes in contingent consideration classified as equity, which is not remeasured.

Changes in ownership interest in a subsidiary which do not result in a loss of control are treated as transactions between equity holders and are reported in equity.

Where a business combination achieved in stages, the previously held equity interest is remeasured at the acquisition-date fair value with the resulting gain or loss recognised in the income statement.

(j) Foreign currencies

Items included in the Group financial statements for each of the Group's entities are measured using the currency of the primary economic environment in which the entity operates (the functional currency of that entity). Both the Company and Group financial statements are presented in US dollars, which is the functional and presentation currency of the Company and the presentation currency of the Group.

Transactions and balances

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the transaction date. Foreign exchange gains and losses resulting from the settlement of such transactions, and from the translation at year-end exchange rates of monetary assets and liabilities denominated in foreign currencies, are recognised in the income statement. Non-monetary assets and liabilities are translated at historical exchange rates if held at historical cost, or year-end exchange rates if held at fair value, and the resulting foreign exchange gains and losses are recognised in either the income statement or shareholders' equity depending on the treatment of the gain or loss on the asset or liability.

Foreign currency translation

The results and financial position of all the entities included in the Group financial statements that have a functional currency different from the Group's presentation currency are accounted for as follows:

- assets and liabilities for each balance sheet presented are translated at the closing rate at the balance sheet date;
- income and expenses for each income statement are translated at average exchange rates or at rates on the date of the transaction where exchange rates fluctuate significantly; and
- all resulting exchange differences arising since 1 January 2004 are recognised as a separate component of equity

On consolidation, exchange differences arising from the translation of the net investment in foreign entities, and of borrowings and other currency instruments designated as hedges of such investments, are taken to other comprehensive income. When a foreign operation is sold or capital repatriated they are recognised in the income statement as part of the gain or loss on disposal.

Goodwill and fair value adjustments arising on the acquisition of a foreign entity are treated as assets and liabilities of the foreign entity and translated at the closing rate.

(k) Income recognition

Income from financial instruments

Gains and losses arising from changes in the fair value of financial instruments held at fair value through profit or loss are included in the income statement in the period in which they arise. Contractual interest income and expense on financial instruments held at fair value through profit or loss is recognised within net interest income.

For available-for-sale assets and financial assets and liabilities held at amortised cost, interest income and interest expense is recognised using the effective interest method.

The effective interest method is a method of calculating the amortised cost of a financial asset or a financial liability and of allocating the interest income or interest expense over the relevant period. The effective interest rate is the rate that discounts estimated future cash payments or receipts through the expected life of the financial instrument or, when appropriate, a shorter period, to the net carrying amount of the financial asset or financial liability. When calculating the effective interest rate, the Group estimates cash flows considering all contractual terms of the financial instrument (for example, prepayment options) but does not consider future credit losses. The calculation includes all fees paid or received between parties to the contract that are an integral part of the effective interest rate, transaction costs and all other premiums or discounts.

Where the estimates of cash flows have been revised, the carrying amount of the financial asset or liability is adjusted to reflect the actual and revised cash flows, discounted at the instrument's original effective interest rate. The adjustment is recognised as interest income or expense in the period in which the revision is made.

If the financial asset has been reclassified, subsequent increases in the estimates of future cash receipts as a result of increased recoverability are recognised as an adjustment to the effective interest rate from the date of the change in estimate.

Standard Chartered Bank

Notes to the financial statements continued

1. Accounting policies continued

Once a financial asset or a group of similar financial assets has been written down as a result of an impairment loss, interest income is recognised using the rate of interest used to discount the future cash flows for the purpose of measuring the impairment loss.

Gains and losses arising from changes in the fair value of available-for-sale financial assets, other than foreign exchange gains and losses from monetary items, are recognised directly in equity, until the financial asset is derecognised or impaired at which time the cumulative gain or loss previously recognised in equity is recognised in profit or loss.

Dividends on equity instruments are recognised in the income statement within other income when the Group's right to receive payment is established.

Fees and commissions

Fees and commissions are generally recognised on an accrual basis when the service has been provided or significant act performed. Loan syndication fees are recognised as revenue when the syndication has been completed and the Group retained no part of the loan package for itself, or retained a part at the same effective interest rate as for the other participants. Portfolio and other management advisory and service fees are recognised based on the applicable service contracts, usually on a time apportionment basis.

(l) Cash and cash equivalents

For the purposes of the cash flow statement, cash and cash equivalents comprise cash, on demand and overnight balances with central banks (unless restricted) and balances with less than three months maturity from the date of acquisition, including treasury bills and other eligible bills, loans and advances to banks, and short-term government securities.

(m) Financial assets and liabilities classification (excluding derivatives)

The Group classifies its financial assets into the following measurement categories: a) financial assets held at fair value through profit or loss; b) loans and receivables; c) held-to-maturity; and d) available-for-sale. Financial liabilities are classified as either held at fair value through profit or loss, or at amortised cost. Management determines the classification of its financial assets and liabilities at initial recognition or, where applicable, at the time of reclassification. Details of financial assets and liabilities held by the Group are provided in notes 15, 16 and 17

Financial assets and liabilities held at fair value through profit or loss

This category has two sub-categories: financial assets and liabilities held for trading, and those designated at fair value through profit or loss at inception. A financial asset or liability is classified as trading if acquired principally for the purpose of selling in the short term.

Financial assets and liabilities may be designated at fair value through profit or loss when:

- the designation eliminates or significantly reduces a measurement or recognition inconsistency that would otherwise arise from measuring assets or liabilities on a different basis; or
- a group of financial assets and/or liabilities is managed and its performance evaluated on a fair value basis; or
- the assets or liabilities include embedded derivatives and such derivatives are required to be recognised separately.

For certain loans and advances and debt securities with fixed rates of interest, interest rate swaps have been acquired with the intention of significantly reducing interest rate risk. To significantly reduce the accounting mismatch between assets and liabilities and measurement bases, these loans and advances and debt securities have been designated at fair value through profit or loss. Details of financial assets designated at fair value are disclosed in notes 15 and 16.

The Group has also designated certain financial liabilities at fair value through profit or loss where either the liabilities:

- have fixed rates of interest and interest rate swaps or other interest rate derivatives have been entered into with the intention of significantly reducing interest rate risk; or
- are exposed to foreign currency risk and derivatives have been acquired with the intention of significantly reducing exposure to market changes; or
- have been acquired to fund trading asset portfolios or assets, or where the assets and liabilities are managed, and performance evaluated, on a fair value basis for a documented risk management or investment strategy.

Designation of certain liabilities at fair value through profit or loss significantly reduces the accounting mismatch between fair value and amortised cost expense recognition. Details of financial liabilities designated at fair value are disclosed in note 15.

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market and it is expected that substantially all of the initial investment will be recovered, other than because of credit deterioration.

Held-to-maturity

Held-to-maturity assets are non-derivative financial assets with fixed or determinable payments and fixed maturities that the Group's management has the intention and ability to hold to maturity.

Available-for-sale

Available-for-sale assets are those non-derivative financial assets intended to be held for an indefinite period of time, which may be sold in response to liquidity requirements or changes in interest rates, exchange rates, commodity prices or equity prices.

Further details on the application of these policies is set out in note 15.

Financial liabilities held at amortised cost

Financial liabilities, which include borrowings, not classified held at fair value through profit or loss are classified as amortised cost instruments.

Preference shares which carry a mandatory coupon that represents a market rate of interest at the issue date, or which are redeemable on a specific date or at the option of the shareholder are classified as financial liabilities and are presented in other borrowed funds. The dividends on these preference shares are recognised in the income statement as interest expense on an amortised cost basis using the effective interest method.

Fair value of financial assets and liabilities

Fair value is the amount for which an asset could be exchanged, or a liability settled, between knowledgeable willing parties in an arm's length transaction.

Standard Chartered Bank

Notes to the financial statements continued

1. Accounting policies continued

The fair values of quoted financial assets and liabilities in active markets are based on current prices. If the market for a financial instrument, and for unlisted securities, is not active, the Group establishes fair value by using valuation techniques. These include the use of recent arm's length transactions, discounted cash flow analysis, option pricing models and other valuation techniques commonly used by market participants.

Where representative prices are unreliable because of illiquid markets, the determination of fair value may require estimation of certain parameters, which are calibrated against industry standards and observable market data, or the use of valuation models that are based on observable market data.

Equity investments that do not have an observable market price are fair valued by applying various valuation techniques, such as earnings multiples, net assets multiples, discounted cash flows, and industry valuation benchmarks. These techniques are generally applied prior to any initial public offering, after which an observable market price becomes available. Disposal of such investments are generally by market trades or private sales.

Initial recognition

Purchases and sales of financial assets and liabilities held at fair value through profit or loss, and financial assets classified as held-to-maturity and available-for-sale are initially recognised on the trade-date (the date on which the Group commits to purchase or sell the asset). Loans are recognised when cash is advanced to the borrowers.

All financial instruments are initially recognised at fair value, which is normally the transaction price plus, for those financial assets and liabilities not carried at fair value through profit and loss, directly attributable transaction costs.

In certain circumstances, the initial fair value may be based on a valuation technique which may lead to the recognition of profits or losses at the time of initial recognition. However, these profits or losses can only be recognised when the valuation technique used is based solely on observable market. In those cases where the initially recognised fair value is based on a valuation model that uses inputs which are not observable in the market, the difference between the transaction price and the valuation model is not recognised immediately in the income statement. The difference is amortised to the income statement until the inputs become observable, or the transaction matures or is terminated.

Subsequent measurement

Financial assets and liabilities held at fair value through profit or loss are subsequently carried at fair value, with gains and losses arising from changes in fair value taken directly to the net trading income line in the income statement.

Available-for-sale financial assets are subsequently carried at fair value, with gains and losses arising from changes in fair value taken to the available-for-sale reserve within equity until the asset is sold, or is impaired, when the cumulative gain or loss is transferred to the income statement.

Loans and receivables and held-to-maturity financial assets are subsequently carried at amortised cost using the effective interest method.

Financial liabilities are subsequently stated at amortised cost, with any difference between proceeds net of directly attributable transaction costs and the redemption value recognised in the income statement over the period of the borrowings using the effective interest method.

In addition to these instruments, the carrying value of a financial instrument carried at amortised cost that is the hedged item in a qualifying fair value hedge relationship is adjusted by the fair value gain or loss attributable to the hedged risk.

Impairment of financial assets

The Group assesses at each balance sheet date whether there is objective evidence that a financial asset or group of financial assets is impaired. A financial asset or a group of financial assets is impaired and impairment losses are incurred if, and only if, there is objective evidence of impairment as a result of one or more events occurring after the initial recognition of the asset (a loss event), and that loss event (or events) has an impact on the estimated future cash flows of the financial asset or group of financial assets that can be reliably estimated.

The Group considers the following factors in assessing objective evidence of impairment:

- whether the counterparty is in default of principal or interest payments
- when a counterparty files for bankruptcy protection (or the local equivalent) and this would avoid or delay discharge of its obligation
- where the Group files to have the counterparty declared bankrupt or files a similar order in respect of a credit obligation
- where the Group consents to a restructuring of the obligation, resulting in a diminished financial obligation, demonstrated by a material forgiveness of debt or postponement of scheduled payments
- where the Group sells a credit obligation at a material credit-related economic loss; or
- where there is observable data indicating that there is a measurable decrease in the estimated future cash flows of a group of financial assets, although the decrease cannot yet be identified with specific individual financial assets.

Assets carried at amortised cost

The Group first assesses whether objective evidence of impairment exists individually for financial assets that are individually significant, and individually or collectively for financial assets that are not individually significant.

If the Group determines that no objective evidence of impairment exists for an individually assessed financial asset, whether significant or not, it includes the asset in a group of financial assets with similar credit risk characteristics and collectively assesses them for impairment. Assets that are individually assessed for impairment and for which an impairment loss is or continues to be recognised, are not included in a collective assessment of impairment.

If there is objective evidence that an impairment loss on a loan and receivable or a held-to-maturity asset has been incurred, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not been incurred), discounted at the asset's original effective interest rate. The carrying amount of the asset is reduced through the use of an allowance account and the amount of the loss is recognised in the income statement. If a loan and receivable or held-to-maturity asset has a variable interest rate, the discount rate for measuring any impairment loss is the current effective interest rate determined under the contract. As a practical expedient, the Group may measure impairment on the basis of an instrument's fair value using an observable market price.

Standard Chartered Bank

Notes to the financial statements continued

1. Accounting policies continued

The calculation of the present value of the estimated future cash flows of a collateralised financial asset reflects the cash flows that may result from foreclosure, less costs for obtaining and selling the collateral, whether or not foreclosure is probable. Further details on collateral held by the Group is discussed in the Risk review section on pages 29 and 30. For the purposes of a collective evaluation of impairment, financial assets are grouped on the basis of similar credit risk characteristics (i.e. on the basis of the Group's grading process which considers asset type, industry, geographic location, collateral type, past-due status and other relevant factors).

These characteristics are relevant to the estimation of future cash flows for groups of such assets being indicative of the debtors' ability to pay all amounts due according to the contractual terms of the assets being evaluated.

Future cash flows in a group of financial assets that are collectively evaluated for impairment are based on the probability of default inherent within the portfolio of impaired loans or receivables and the historical loss experience for assets with credit risk characteristics similar to those in the group. Historical loss experience is adjusted on the basis of current observable data to reflect the effects of current conditions that did not affect the period on which the historical loss experience is based, and to remove the effects of conditions in the historical period that do not exist currently.

To the extent a loan is irrecoverable, it is written off against the related provision for loan impairment. Such loans are written off after all the necessary procedures have been completed, it is decided that there is no realistic probability of recovery and the amount of the loss has been determined. Subsequent recoveries of amounts previously written off decrease the amount of the provision for loan impairment in the income statement. If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised (such as an improvement in the debtor's credit rating), the previously recognised impairment loss is reversed by adjusting the allowance account. The amount of the reversal is recognised in the income statement.

Further details on the application of these policies is set out in the Financial risk management section.

Available-for-sale assets

Where objective evidence of impairment exists for available-for-sale financial assets, the cumulative loss (measured as the difference between the amortised cost and the current fair value, less any impairment loss on that financial asset previously recognised in the income statement) is reclassified from equity and recognised in the income statement. A significant or prolonged decline in the fair value of an equity security below its cost is considered, amongst other factors in assessing objective evidence of impairment for equity securities.

If, in a subsequent period, the fair value of a debt instrument classified as available-for-sale increases and the increase can be objectively related to an event occurring after the impairment loss was recognised, the impairment loss is reversed through the income statement. Impairment losses recognised in the income statement on equity instruments are not reversed through the income statement.

Renegotiated loans

Loans whose original terms have been modified including those subject to forbearance strategies are considered renegotiated loans. If the renegotiations are on terms that are not consistent with those readily available on the market, this provides objective evidence of impairment and the loan is assessed accordingly.

Offsetting financial instruments

Financial assets and liabilities are offset and the net amount reported in the balance sheet when there is a legally enforceable right to offset the recognised amounts and there is an intention to settle on a net basis, or to realise the asset and settle the liability simultaneously.

Reclassifications

Reclassifications of financial assets, other than as set out below, or of financial liabilities between measurement categories are not permitted following initial recognition.

Held for trading non-derivative financial assets can only be transferred out of the held at fair value through profit or loss category in the following circumstances: to the available-for-sale category, where, in rare circumstances, they are no longer held for the purpose of selling or repurchasing in the near term; or to the loan and receivables category, where they are no longer held for the purpose of selling or repurchasing in the near term and they would have met the definition of a loan and receivable at the date of reclassification and the Group has the intent and ability to hold the assets for the foreseeable future or until maturity.

Financial assets can only be transferred out of the available-for-sale category to the loan and receivables category where they would have met the definition of a loan and receivable at the date of reclassification and the Group has the intent and ability to hold the assets for the foreseeable future or until maturity.

Held-to-maturity assets must be reclassified to the available-for-sale category if the portfolio becomes tainted following the sale of other than an insignificant amount of held-to-maturity assets prior to their maturity.

Financial assets are reclassified at their fair value on the date of reclassification. For financial assets reclassified out of the available-for-sale category into loans and receivables, any gain or loss on those assets recognised in shareholders' equity prior to the date of reclassification is amortised to the income statement over the remaining life of the financial asset, using the effective interest method.

Sale and repurchase agreements

Securities sold subject to repurchase agreements (repos) remain on the balance sheet; the counterparty liability is included in deposits by banks, or customer accounts, as appropriate. Securities purchased under agreements to resell (reverse-repos) are recorded as loans and advances to other banks or customers, as appropriate. The difference between sale and repurchase price is treated as interest and accrued over the life of the agreements using the effective interest method.

Securities lent to counterparties are also retained in the financial statements. Securities borrowed are not recognised in the financial statements, unless these are sold to third parties, in which case the purchase and sale are recorded with the gain or loss included in trading income.

Standard Chartered Bank

Notes to the financial statements continued

1. Accounting policies continued

Details of repo and reverse-repo transactions entered into by the Group are provided in note 15.

Derecognition

Financial assets are derecognised when the rights to receive cash flows from the financial assets have expired or where the Group has transferred substantially all risks and rewards of ownership. If substantially all the risks and rewards have been neither retained nor transferred and the Group has retained control, the assets continue to be recognised to the extent of the Group's continuing involvement.

Financial liabilities are derecognised when they are extinguished. A financial liability is extinguished when the obligation is discharged, cancelled or expires.

If the Group purchases its own debt, it is removed from the balance sheet, and the difference between the carrying amount of the liability and the consideration paid is included in 'Other income'.

(n) Derivative financial instruments and hedge accounting

Derivatives are financial instruments that derive their value in response to changes in interest rates, financial instrument prices, commodity prices, foreign exchange rates, credit risk and indices. Derivatives are categorised as trading unless they are designated as hedging instruments.

All derivatives are initially recognised and subsequently measured at fair value, with all revaluation gains recognised in profit and loss (except where cash flow or net investment hedging has been achieved, in which case the effective portion of changes in fair value is recognised within other comprehensive income).

Fair values may be obtained from quoted market prices in active markets, recent market transactions, and valuation techniques, including discounted cash flow models and option pricing models, as appropriate. Where the initially recognised fair value of a derivative contract is based on a valuation model that uses inputs which are not observable in the market, it follows the same initial recognition accounting policy as for other financial assets and liabilities. All derivatives are carried as assets when fair value is positive and as liabilities when fair value is negative.

Certain derivatives embedded in other financial instruments, such as the conversion option in a convertible bond held, are valued as separate derivatives when their economic characteristics and risks are not closely related to those of the host contract and the host contract is not carried at fair value through profit or loss. These embedded derivatives are measured at fair value with changes in fair value recognised in the income statement. Embedded derivatives continue to be presented with the host contract and are not separately disclosed or included within derivatives.

The method of recognising the resulting fair value gain or loss depends on whether the derivative is designated as a hedging instrument, and if so, the nature of the item being hedged. The Group designates certain derivatives as either: (1) hedges of the fair value of recognised assets or liabilities or firm commitments (fair value hedge); (2) hedges of highly probable future cash flows attributable to a recognised asset or liability, or a forecasted transaction (cash flow hedge); or (3) hedges of the net investment of a foreign operation (net investment hedges).

Hedge accounting is used for derivatives designated in this way provided certain criteria are met.

The Group and Company documents, at the inception of the transaction, the relationship between hedging instruments and hedged items, as well as its risk management objective and strategy for undertaking various hedge transactions. The Group also documents its assessment, both at hedge inception and on an ongoing basis, of whether the derivatives that are used in hedging transactions are highly effective in offsetting changes in fair values or cash flows of hedged items.

Details of derivative financial instruments held by the Group, including those held for hedge accounting are provided in note 17.

Fair value hedge

Changes in the fair value of derivatives that are designated and qualify as fair value hedging instruments are recorded in the income statement, together with any changes in the fair value of the hedged asset or liability that are attributable to the hedged risk. If the hedge no longer meets the criteria for hedge accounting, the adjustment to the carrying amount of a hedged item for which the effective interest method is used is amortised to the income statement over the period to maturity or derecognition.

Cash flow hedge

The effective portion of changes in the fair value of derivatives that are designated and qualify as cash flow hedging instruments is recognised in equity. The gain or loss relating to the ineffective portion is recognised immediately in the income statement.

Amounts accumulated in equity are reclassified to the income statement in the periods in which the hedged item affects profit or loss.

When a hedging instrument expires or is sold, or when a hedge no longer meets the criteria for hedge accounting, any cumulative gain or loss existing in equity at that time remains in equity and is recognised when the forecast transaction is ultimately recognised in the income statement. When a forecast transaction is no longer expected to occur, the cumulative gain or loss that was reported in equity is immediately transferred to the income statement.

Net investment hedge

Hedges of net investments in foreign operations are accounted for similarly to cash flow hedges. Any gain or loss on the hedging instrument relating to the effective portion of the hedge is recognised in the translation reserve; the gain or loss relating to the ineffective portion is recognised immediately in the income statement. Gains and losses accumulated in equity are reclassified to the income statement when the foreign operation is disposed of.

Further details on the application of these policies are set out in note 17.

Derivatives that do not qualify for hedge accounting

Changes in the fair value of any derivative instruments not qualifying for hedge accounting are recognised immediately in the income statement.

Standard Chartered Bank

Notes to the financial statements continued

1. Accounting policies continued

(o) Leases

Where a Group company is the lessee

The leases entered into by the Group are primarily operating leases. The total payments made under operating leases are charged to the income statement on a straight-line basis over the period of the lease.

When an operating lease is terminated before the lease period has expired, any payment required to be made to the lessor by way of penalty is recognised as an expense in the period in which termination takes place.

Where the Group is a lessee under finance leases, the leased assets are capitalised and included in Property, plant and equipment with a corresponding liability to the lessor recognised in Other liabilities. Finance charges payable are recognised over the period of the lease based on the interest rate implicit in the lease to give a constant periodic rate of return.

Where a Group company is the lessor

When assets are leased to customers under finance leases, the present value of the lease payments is recognised as a receivable. The difference between the gross receivable and the present value of the receivable is recognised as unearned finance income. Lease income is recognised over the term of the lease using the net investment method (before tax), which reflects a constant periodic rate of return ignoring tax cash flows.

Assets leased to customers under operating leases are included within Property, plant and equipment and depreciated over their useful lives. Rental income on these leased assets is recognised in the income statement on a straight-line basis unless another systematic basis is more representative.

(p) Intangible and tangible fixed assets

Goodwill

Goodwill represents the excess of the cost of an acquisition over the fair value of the Group's share of the identifiable net assets and contingent liabilities of the acquired subsidiary, associate or joint venture at the date of acquisition. Goodwill on acquisitions of subsidiaries and joint ventures is included in Intangible assets. Goodwill on acquisitions of associates is included in Investments in associates. Goodwill included in intangible assets is assessed at each balance sheet date for impairment and carried at cost less any accumulated impairment losses. Gains and losses on the disposal of an entity include the carrying amount of goodwill relating to the entity sold. Detailed calculations are performed based on discounting expected pre-tax cash flows of the relevant cash generating units and discounting these at an appropriate discount rate, the determination of which requires the exercise of judgement. Goodwill is allocated to cash-generating units for the purpose of impairment testing. Cash generating units represent the lowest level within the Group at which the goodwill is monitored for internal management purposes. These are smaller than the Group's reportable segments (as set out in note 2) as the Group views its reportable segments on a global basis. Note 25 sets out the major cash-generating units to which goodwill has been allocated.

Acquired intangibles

At the date of acquisition of a subsidiary or associate, intangible assets which are deemed separable and that arise from contractual or other legal rights are capitalised and included within the net identifiable assets acquired. These intangible assets are initially measured at fair value, which reflects market expectations of the probability that the future economic benefits embodied in the asset will flow to the entity, and are amortised on the basis of their expected useful lives (4 to 16 years). At each balance sheet date, these assets are assessed for indicators of impairment. In the event that an asset's carrying amount is determined to be greater than its recoverable amount, the asset is written down immediately.

Computer software

Acquired computer software licences are capitalised on the basis of the costs incurred to acquire and bring to use the specific software. Costs associated with the development of software are capitalised where it is probable that it will generate future economic benefits in excess of its cost. Computer software costs are amortised on the basis of expected useful life (three to five years). Costs associated with maintaining software are recognised as an expense as incurred. At each balance sheet date, these assets are assessed for indicators of impairment. In the event that an asset's carrying amount is determined to be greater than its recoverable amount, the asset is written down immediately.

Property, plant and equipment

Land and buildings comprise mainly branches and offices. All property, plant and equipment is stated at cost less accumulated depreciation and impairment losses. Cost includes expenditure that is directly attributable to the acquisition of the assets.

Subsequent costs are included in the asset's carrying amount or are recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Group and the cost of the item can be measured reliably. All other repairs and maintenance are charged to the income statement during the financial period in which they are incurred.

Freehold land is not depreciated although it is subject to impairment testing. Depreciation on other assets is calculated using the straight-line method to allocate their cost to their residual values over their estimated useful lives, as follows:

Buildings	up to 50 years
Leasehold improvements	life of lease, up to 50 years
Equipment and motor vehicles	three to 15 years
Aircraft and Ships	up to 25 years

The assets' residual values and useful lives are reviewed, and adjusted if appropriate, at each balance sheet date. At each balance sheet date, assets are also assessed for indicators of impairment. In the event that an asset's carrying amount is determined to be greater than its recoverable amount, the asset is written down immediately to the recoverable amount.

Gains and losses on disposals are included in the income statement.

Standard Chartered Bank

Notes to the financial statements continued

1. Accounting policies continued

(q) Taxation

Income tax payable on profits is based on the applicable tax law in each jurisdiction and is recognised as an expense in the period in which profits arise.

Deferred tax is provided in full, using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the consolidated financial statements. Deferred income tax is determined using tax rates (and laws) that have been enacted or substantially enacted as at the balance sheet date, and that are expected to apply when the related deferred income tax asset is realised or the deferred income tax liability is settled.

Deferred tax assets are recognised where it is probable that future taxable profit will be available against which the temporary differences can be utilised.

Current and deferred tax relating to items which are charged or credited directly to equity, is credited or charged directly to equity and is subsequently recognised in the income statement together with the current or deferred gain or loss.

(r) Provisions

Provisions for restructuring costs and legal claims are recognised when the Group has a present legal or constructive obligation as a result of past events; it is more likely than not that an outflow of resources will be required to settle the obligation and the amount can be reliably estimated. Where a liability arises based on participation in a market at a specified date (such as the UK bank levy), the obligation is recognised in the financial statements on that date and is not accrued over the period.

(s) Employee benefits

Pension obligations

The Group operates a number of pension and other post-retirement benefit plans around the world, including defined contribution plans and defined benefit plans.

For defined contribution plans, the Group pays contributions to publicly or privately administered pension plans on a mandatory, contractual or voluntary basis, and such amounts are charged to operating expenses. The Group has no further payment obligations once the contributions have been paid.

For funded defined benefit plans, the liability recognised in the balance sheet is the present value of the defined benefit obligation at the balance sheet date less the fair value of plan assets. For unfunded defined benefit plans the liability recognised at the balance sheet date is the present value of the defined benefit obligation. The defined benefit obligation is calculated annually by independent actuaries using the projected unit method. The present value of the defined benefit obligation is determined by discounting the estimated future cash outflows using an interest rate equal to the yield on high-quality corporate bonds that are denominated in the currency in which the benefits will be paid, and that have a term to maturity approximating to the term of the related pension liability.

Actuarial gains and losses that arise are recognised in shareholders' equity and presented in the statement of other comprehensive income in the period they arise. Past service costs are recognised immediately to the extent that benefits are vested and are otherwise recognised over the average period until benefits are vested on a straight-line basis. Current service costs and any past service costs, together with the unwinding of the discount on plan liabilities, offset by the expected return on plan assets where applicable, are charged to operating expenses.

Details of the Group's retirement benefit obligations are provided in note 34.

Share-based compensation

The ultimate parent company of the Group and Company, Standard Chartered PLC, operates share based compensation schemes for employees of the Group and Company. All share options granted by the parent are accounted for on an equity settled basis regardless of how the parent ultimately settles with the employees of the Group and Company. The Group and Company receive the fair value of the employee services in exchange for grant of options by the parent. The services received from the employees are recognised as expenses with a corresponding credit to equity, which represents a deemed contribution from Standard Chartered PLC.

The amount to be expensed over the vesting period is determined by reference to the fair value of the options received by the employees, which excludes the impact of any non-market vesting conditions (for example, profitability and growth targets). The fair value of equity instruments received is based on market prices of the parent's shares, if available, at the date of grant. In the absence of market prices, the fair value of the instruments is estimated using an appropriate valuation technique, such as a binomial option pricing model. Non-market vesting conditions are included in assumptions about the number of options that are expected to vest. At each balance sheet date, the parent revises its estimates of the number of options that are expected to vest. It recognises the impact of the revision of original estimates, if any, in the income statement, and a corresponding adjustment to equity over the remaining vesting period. Forfeitures prior to vesting attributable to factors other than the failure to satisfy a non-market vesting condition are treated as a cancellation and the remaining unamortised charge is debited to the income statement at the time of cancellation.

Details of the Group's share based compensation scheme are set out in note 37.

(t) Share capital

Incremental costs directly attributable to the issue of new shares or options are shown in equity as a deduction, net of tax, from the proceeds.

Dividends on ordinary shares and preference shares classified as equity are recognised in equity in the period in which they are declared.

Where the Company or other members of the consolidated Group purchases the Company's equity share capital, the consideration paid is deducted from the total shareholders' equity of the Group and/or of the Company as treasury shares until they are cancelled. Where such shares are subsequently sold or reissued, any consideration received is included in shareholders' equity of the Group and/or the Company.

Standard Chartered Bank

Notes to the financial statements continued

2. Segmental Information

The Group is organised on a worldwide basis for management and reporting purposes into two main business segments: Consumer Banking and Wholesale Banking. The products offered by these segments are summarised under 'Income by product' below. The businesses' focus is on broadening and deepening the relationship with clients and customers, rather than maximising a particular product line. Hence the Group evaluates segmental performance based on overall profit or loss before taxation (excluding corporate items not allocated) and not individual product profitability. Product revenue information is used as a way of assessing clients and customer needs and trends in the market place. The strategies adopted by Consumer Banking and Wholesale Banking need to be adapted to local market and regulatory requirements, which is the responsibility of country management teams. While not the primary driver of the business, country performance is an important part of the Group's matrix structure and is also used to evaluate performance and reward staff. Corporate items not allocated are not aggregated into the businesses because of the one-off nature of these items.

The Group's entity-wide disclosure which includes profit before tax, net interest margin and structure of the Group's deposits comprises geographic areas, classified by the location of the customer, except for Financial Market products which are classified by the location of the dealer.

Transactions between the business segments and geographic areas are carried out on an arms length basis. Apart from the entities that have been acquired in the last two years, Group central expenses have been distributed between the business segments and geographic areas in proportion to their direct costs, and the benefit of the Group's capital has been distributed between segments in proportion to their average risk weighted assets. In the year in which an acquisition is made, the Group does not charge or allocate the benefit of the Group's capital. The distribution of central expenses is phased in over two years, based on the estimate of central management costs associated with the acquisition.

By class of business

	2012					2011				
	Consumer Banking	Wholesale Banking	Total reportable segments	Corporate items not allocated ²	Total	Consumer Banking	Wholesale Banking	Total reportable segments	Corporate items not allocated ³	Total
	\$million	\$million	\$million	\$million	\$million	\$million	\$million	\$million	\$million	\$million
Internal income	(16)	16	-	-	-	(44)	44	-	-	-
Net interest income	4,922	6,083	11,005	-	11,005	4,630	5,536	10,166	-	10,166
Other income	2,296	5,692	7,988	-	7,988	2,216	5,299	7,515	-	7,515
Operating income	7,202	11,791	18,993	-	18,993	6,802	10,879	17,681	-	17,681
Operating expenses	(4,726)	(6,008)	(10,734)	(174)	(10,908)	(4,627)	(5,175)	(9,802)	(165)	(9,967)
Operating profit before impairment losses and taxation	2,476	5,783	8,259	(174)	8,085	2,175	5,704	7,879	(165)	7,714
Impairment losses on loans and advances and other credit risk provisions	(697)	(524)	(1,221)	-	(1,221)	(524)	(384)	(908)	-	(908)
Other impairment	(4)	(120)	(124)	(70)	(194)	(12)	(99)	(111)	-	(111)
Profit from associates	-	-	-	116	116	-	-	-	74	74
Profit before taxation	1,775	5,139	6,914	(128)	6,786	1,639	5,221	6,860	(91)	6,769
Total assets employed⁴	143,133	491,094	634,227	1,859	636,086	135,058	455,223	590,281	1,970	592,251
Total liabilities employed⁴	191,297	403,540	594,837	1,369	596,206	174,359	381,224	555,583	1,218	556,801
Other segment items:										
Capital expenditure ¹	210	2,042	2,252	-	2,252	178	1,397	1,575	-	1,575
Depreciation	148	263	411	-	411	169	199	368	-	368
Investment in associates	-	-	-	953	953	-	-	-	903	903
Amortisation of intangible assets	102	174	276	-	276	89	182	271	-	271

¹ Includes capital expenditure in Wholesale Banking of \$1,788 million in respect of operating lease assets (2011: \$1,049 million).

² Relates to profits realised from repurchase of subordinated liabilities, UK bank levy, impairment of investment in associates and the Group's share of profit from associates

³ Relates to UK bank levy and Group share of profit from associates

⁴ Amounts have been restated as explained in note 46

Standard Chartered Bank

Notes to the financial statements continued

2. Segmental Information continued

The following table details entity-wide operating income by product:

	2012 \$million	2011 \$million
Consumer Banking		
Cards, Personal Loans and Unsecured Lending	2,707	2,426
Wealth Management	1,275	1,274
Deposits	1,566	1,412
Mortgage and Auto Finance	1,390	1,480
Other	264	210
	7,202	6,802
Wholesale Banking		
Lending and Portfolio Management	892	844
Transaction Banking		
Trade	1,942	1,600
Cash management and custody	1,733	1,657
	3,675	3,257
Global Markets		
Financial Markets	3,667	3,699
Asset and Liability Management (ALM)	850	924
Corporate Finance	2,224	1,879
Principal Finance	483	276
	7,224	6,778
	11,791	10,879

Entity-wide information

By geography

The Group manages its reportable business segments on a global basis. The operations are based in eight main geographic areas. The UK is the home country of the company.

	2012								Total \$million
	Hong Kong \$million	Singapore \$million	Korea \$million	Other Asia Pacific \$million	India \$million	Middle East & Other S Asia \$million	Africa \$million	Americas UK & Europe ¹ \$million	
Internal income	111	(107)	(85)	93	129	84	60	(285)	-
Net interest income	1,563	1,250	1,421	2,396	919	1,142	917	1,397	11,005
Fees and commissions income, net	830	551	210	719	304	467	416	620	4,117
Net trading income	656	379	149	588	160	451	158	228	2,769
Other operating income	190	132	159	166	75	88	43	249	1,102
Operating income	3,350	2,205	1,854	3,962	1,587	2,232	1,594	2,209	18,993
Operating expenses	(1,575)	(1,171)	(1,079)	(2,437)	(753)	(1,097)	(785)	(2,011)	(10,908)
Operating profit before impairment losses and taxation	1,775	1,034	775	1,525	834	1,135	809	198	8,085
Impairment losses on loans and advances and other credit risk provisions	(109)	(66)	(249)	(246)	(165)	(316)	(38)	(32)	(1,221)
Other impairment	(7)	(2)	(8)	(155)	9	(32)	-	1	(194)
Profit from associates	-	-	-	115	-	-	-	1	116
Profit before taxation	1,659	966	518	1,239	678	787	771	168	6,786
Capital expenditure²	1,828	247	23	63	27	19	37	8	2,252

¹ Americas UK & Europe includes operating income of \$1,113 million in respect of the UK, the Company's country of domicile.

² Includes capital expenditure in Hong Kong of \$1,788 million in respect of operating lease assets. Other capital expenditure comprises additions to property and equipment (note 26) and software related intangibles (note 25) including any post-acquisition additions made by the acquired entities.

Standard Chartered Bank

Notes to the financial statements continued

2. Segmental Information continued

	2011								
	Hong Kong	Singapore	Korea	Other Asia Pacific ³	India	Middle East & Other S Asia	Africa	Americas UK & Europe ³	Total
	\$million	\$million	\$million	\$million	\$million	\$million	\$million	\$million	\$million
Internal income	70	(98)	(66)	19	96	51	85	(157)	-
Net interest income	1,532	1,077	1,433	2,174	892	1,142	761	1,155	10,166
Fees and commissions income, net	1,209	695	205	966	470	600	346	(448)	4,043
Net trading income	104	390	73	204	230	334	174	1,170	2,679
Other operating income	136	129	80	159	122	91	19	57	793
Operating income	3,051	2,193	1,725	3,522	1,810	2,218	1,385	1,777	17,681
Operating expenses	(1,397)	(1,107)	(1,352)	(2,077)	(832)	(1,086)	(719)	(1,397)	(9,967)
Operating profit before impairment losses and taxation	1,654	1,086	373	1,445	978	1,132	666	380	7,714
Impairment losses on loans and advances and other credit risk provisions	(103)	(48)	(198)	(135)	(112)	(286)	(24)	(2)	(908)
Other impairment	-	(31)	(13)	31	(60)	(14)	(16)	(8)	(111)
Profit from associates	-	-	-	73	-	-	-	1	74
Profit before taxation	1,551	1,007	162	1,414	806	832	626	371	6,769
Capital expenditure²	781	221	25	74	60	20	25	369	1,575

¹ Americas UK & Europe includes operating income of \$860 million in respect of the UK, the Company's country of domicile

² Includes capital expenditure in Hong Kong of \$724 million and in the UK \$325 million in respect of operating lease assets. Other capital expenditure comprises additions to property and equipment (note 26) and software related intangibles (note 25) including any post-acquisition additions made by the acquired entities

³ Amounts have been restated as explained in note 46

Net interest margin and yield

	2012	2011
	\$million	\$million
Net interest margin (%)	2.3	2.3
Net interest yield (%)	2.1	2.2
Average interest earning assets	488,168	441,892
Average interest bearing liabilities	439,034	409,136

Standard Chartered Bank

Notes to the financial statements continued

2. Segmental Information continued

Net interest margin by geography

	2012									
	Hong Kong	Singapore	Korea	Other Asia Pacific	India	Middle East & Other S Asia	Africa	Americas UK & Europe ¹	Intra-group/ tax assets	Total
	\$million	\$million	\$million	\$million	\$million	\$million	\$million	\$million	\$million	\$million
Total assets employed	130,543	107,925	62,863	117,710	36,879	46,155	20,856	179,457	(66,302)	636,086
Of which : Loans to customers ²	53,330	51,318	36,165	58,977	23,994	25,200	11,304	28,575	-	288,863
Average interest-earning assets	106,574	76,288	54,069	105,083	29,747	36,928	18,260	113,617	(52,398)	488,168
Net interest income	1,716	1,144	1,335	2,461	1,050	1,230	976	1,093	-	11,005
Net interest margin (%)	1.6	1.5	2.5	2.3	3.5	3.3	5.3	1.0	-	2.3

¹ Americas UK & Europe includes total assets employed of \$108,352 million in respect of the UK, the Company's country of domicile.

² The analysis of loans and advances to customers is based on the location of the customer rather than booking location of the loan

	2011									
	Hong Kong	Singapore	Korea	Other Asia Pacific	India	Middle East & Other S Asia	Africa	Americas UK & Europe ¹	Intra-group/ tax assets	Total
	\$million	\$million	\$million	\$million	\$million	\$million	\$million	\$million	\$million	\$million
Total assets employed ³	118,845	103,954	63,089	113,396	42,577	56,186	20,391	149,576	(75,763)	592,251
Of which : Loans to customers ^{2,3}	50,996	43,827	38,072	53,979	23,686	23,299	11,231	26,688	-	271,778
Average interest-earning assets	91,923	67,952	57,031	93,333	31,299	33,851	14,569	96,396	(44,462)	441,892
Net interest income	1,631	1,011	1,348	2,185	985	1,202	836	968	-	10,166
Net interest margin (%)	1.8	1.5	2.4	2.3	3.1	3.6	5.7	1.0	-	2.3

¹ Americas UK & Europe includes total assets employed of \$93,891 million in respect of the UK, the Company's country of domicile.

² The analysis of loans and advances to customers is based on the location of the customer rather than booking location of the loan.

³ Amounts have been restated as explained in note 46.

Standard Chartered Bank

Notes to the financial statements continued

2. Segmental Information continued

Structure of deposits

The following tables set out the structure of the Group and Company's deposits by principal geographic areas:

Group

	2012								
	Hong Kong \$million	Singapore \$million	Korea \$million	Other Asia Pacific \$million	India \$million	Middle East & Other S Asia \$million	Africa \$million	Americas UK & Europe \$million	Total \$million
Non-interest bearing current and demand accounts	8,178	9,260	49	3,529	2,691	9,223	4,380	4,920	42,230
Interest bearing current accounts and savings deposits	56,261	28,978	21,368	32,519	1,888	4,159	2,392	27,576	175,141
Time deposits	35,224	37,968	16,989	41,370	7,380	12,367	3,318	49,281	203,897
Other deposits	199	242	595	918	1,636	455	163	1,851	6,059
Total	99,862	76,448	39,001	78,336	13,595	26,204	10,253	83,628	427,327
Deposits by banks	1,585	2,005	1,769	5,678	441	1,934	541	23,492	37,445
Customer accounts	98,277	74,443	37,232	72,658	13,154	24,270	9,712	60,136	389,882
	99,862	76,448	39,001	78,336	13,595	26,204	10,253	83,628	427,327
Debt securities in issue:									
Senior debt	1,291	-	4,038	1,485	-	69	6	232	7,121
Other debt securities	5	1,903	1,999	3,618	47	-	294	31,719	39,585
Subordinated liabilities and other borrowed funds	1,454	-	871	560	-	29	62	20,108	23,084
Total	102,612	78,351	45,909	83,999	13,642	26,302	10,615	135,687	497,117

The table above includes financial instruments held at fair value (see note 15).

	2011								
	Hong Kong \$million	Singapore \$million	Korea \$million	Other Asia Pacific ¹ \$million	India \$million	Middle East & Other S Asia \$million	Africa ¹ \$million	Americas UK & Europe \$million	Total \$million
Non-interest bearing current and demand accounts	6,956	9,013	66	4,181	2,557	8,813	3,886	3,038	38,510
Interest bearing current accounts and savings deposits ¹	48,543	24,567	19,381	29,172	2,285	3,874	2,985	22,378	153,185
Time deposits	33,951	32,730	19,337	41,806	6,706	10,964	3,094	44,447	193,035
Other deposits	283	295	748	1,682	1,691	352	109	1,342	6,502
Total	89,733	66,605	39,532	76,841	13,239	24,003	10,074	71,205	391,232
Deposits by banks	2,025	2,299	1,603	5,844	175	2,059	569	21,814	36,388
Customer accounts ¹	87,708	64,306	37,929	70,997	13,064	21,944	9,505	49,391	354,844
	89,733	66,605	39,532	76,841	13,239	24,003	10,074	71,205	391,232
Debt securities in issue:									
Senior debt	1,708	-	3,549	954	56	-	13	267	6,547
Other debt securities	112	770	4,449	4,547	307	56	216	23,195	33,652
Subordinated liabilities and other borrowed funds	1,687	-	837	601	-	8	41	16,288	19,462
Total	93,240	67,375	48,367	82,943	13,602	24,067	10,344	110,955	450,893

¹ Amount have been restated as explained in note 46

The table above includes financial instruments held at fair value (see note 15).

Standard Chartered Bank

Notes to the financial statements continued

2. Segmental Information continued

Structure of deposits continued

Company

	2012						
	Singapore \$million	Other Asia Pacific \$million	India \$million	Middle East & Other S Asia \$million	Africa \$million	Americas UK & Europe \$million	Total \$million
Non-interest bearing current and demand accounts	9,260	1,171	2,532	8,019	156	4,864	26,002
Interest bearing current accounts and savings deposits	28,978	3,937	1,665	2,835	694	25,360	63,469
Time deposits	37,968	7,391	7,341	11,811	486	45,523	110,520
Other deposits	242	94	1,629	385	-	1,852	4,202
Total	76,448	12,593	13,167	23,050	1,336	77,599	204,193
Deposits by banks	2,005	1,824	440	1,681	58	23,335	29,343
Customer accounts	74,443	10,769	12,727	21,369	1,278	54,264	174,850
	76,448	12,593	13,167	23,050	1,336	77,599	204,193
Debt securities in issue:							
Senior debt	-	-	-	-	-	232	232
Other debt securities	1,903	2,009	-	-	261	31,423	35,596
Subordinated liabilities and other borrowed funds	-	-	-	-	-	20,107	20,107
Total	78,351	14,602	13,167	23,050	1,597	129,361	260,128

The table above includes financial instruments held at fair value (note 15).

	2011						
	Singapore \$million	Other Asia Pacific \$million	India \$million	Middle East & Other S Asia \$million	Africa \$million	Americas UK & Europe \$million	Total \$million
Non-interest bearing current and demand accounts	9,013	1,115	2,412	7,685	117	3,036	23,378
Interest bearing current accounts and savings deposits ¹	24,567	2,628	2,050	2,715	649	20,542	53,151
Time deposits	32,730	9,269	6,632	10,267	912	41,546	101,356
Other deposits	295	40	1,684	320	-	1,340	3,679
Total	66,605	13,052	12,778	20,987	1,678	66,464	181,564
Deposits by banks	2,299	2,760	173	1,832	250	21,632	28,946
Customer accounts ¹	64,306	10,292	12,605	19,155	1,428	44,832	152,618
	66,605	13,052	12,778	20,987	1,678	66,464	181,564
Debt securities in issue:							
Senior debt	-	-	-	-	-	267	267
Other debt securities	770	2,713	356	-	196	22,987	27,022
Subordinated liabilities and other borrowed funds	-	-	-	-	-	16,288	16,288
Total	67,375	15,765	13,134	20,987	1,874	106,006	225,141

¹ Amounts have been restated as explained in note 46

The table above includes financial instruments held at fair value (note 15).

Standard Chartered Bank

Notes to the financial statements continued

3. Interest income

	2012 \$million	2011 \$million
Balances at central banks	161	159
Treasury bills	914	790
Loans and advances to banks	1,214	1,251
Loans and advances to customers	13,588	12,296
Listed debt securities	781	749
Unlisted debt securities	1,523	1,269
Accrued on impaired assets (discount unwind)	77	70
	18,258	16,584

Of which from financial instruments held at :

Amortised cost	14,777	13,419
Available-for-sale	2,425	2,259
Held at fair value through profit or loss	1,056	906

4. Interest expense

	2012 \$million	2011 \$million
Deposits by banks	685	429
Customer accounts:		
Interest bearing current accounts and savings deposits	1,329	1,450
Time deposits	3,507	3,130
Debt securities in issue	818	720
Subordinated liabilities and other borrowed funds:		
Wholly repayable within five years	3	13
Other	911	676
	7,253	6,418

Of which interest expense on financial instruments held at :

Amortised cost	6,538	5,940
Held at fair value through profit or loss	715	478

5. Fees and commissions

	2012 \$million	2011 \$million
Consumer Banking		
Cards, Personal Loans and Unsecured Lending	389	389
Wealth Management	880	868
Deposits	232	238
Mortgages and Auto Finance	93	92
Others	81	44
	1,675	1,631
Wholesale Banking		
Lending and Portfolio Management	91	72
Transaction Banking	1,449	1,409
Financial Markets	230	142
Corporate Finance	670	766
Others	2	23
	2,442	2,412
Net fee and commission income	4,117	4,043

Total fee income arising from financial instruments that are not fair valued through profit or loss \$1,594 million (2011: \$1,380 million) and arising from trust and other fiduciary activities \$119 million (2011: \$155 million)

Total fee expense arising from financial instruments that are not fair valued through profit or loss \$83 million (2011: \$74 million) and arising from trust and other fiduciary activities \$21 million (2011: \$22 million)

Standard Chartered Bank

Notes to the financial statements continued

6. Net trading income

	2012 \$million	2011 \$million
Gains less losses on instruments held for trading:		
Foreign currency ¹	1,865	1,785
Trading securities	730	23
Interest rate derivatives	180	333
Credit and other derivatives	(153)	632
	2,622	2,773
Gains less losses from fair value hedging:		
Gains less losses from fair value hedged items	163	(435)
Gains less losses from fair value hedged instruments	(156)	460
	7	25
Gains less losses on instruments designated at fair value:		
Financial assets designated at fair value through profit or loss	229	52
Financial liabilities designated at fair value through profit or loss	(256)	(438)
Derivatives managed with financial instruments designated at fair value through profit or loss	167	267
	140	(119)
	2,769	2,679

¹ Includes foreign currency gains and losses arising on the translation of foreign currency monetary assets and liabilities.

7. Other operating income

	2012 \$million	2011 \$million
Other operating income includes:		
Gains less losses on disposal of financial assets:		
Available-for-sale	339	267
Loans and receivables	37	27
Dividend income	92	73
Gains arising on assets fair valued at acquisition	3	12
Rental income from operating lease assets	347	268
Gains on disposal of property, plant and equipment	100	52
Gain arising on sale of business	15	-

Gains arising on assets fair valued at acquisition relate to acquisitions completed prior to 1 January 2010 and primarily consist of recoveries of fair value adjustments on loans and advances.

Standard Chartered Bank

Notes to the financial statements continued

8. Operating expenses

	2012	2011
	\$million	\$million
Staff costs:		
Wages and salaries	4,950	4,970
Social security costs	148	155
Other pension costs (note 34)	302	282
Share based payment costs (note 37)	373	430
Other staff costs	804	825
	6,577	6,662

Variable compensation is included within wages and salaries. Other staff costs include training and travel costs. The following tables summarise the number of employees as at 31 December 2012 and 31 December 2011 respectively.

Group

	2012			
	Consumer Banking	Wholesale Banking	Support Services	Total
At 31 December	53,613	19,752	14,066	87,431
Average for the year	52,970	19,565	13,351	85,886

	2011			
	Consumer Banking	Wholesale Banking	Support Services	Total
At 31 December	52,957	19,517	12,740	85,214
Average for the year	51,711	19,236	12,754	83,701

Company

	2012			
	Consumer Banking	Wholesale Banking	Support Services	Total
At 31 December	14,524	8,673	4,009	27,206
Average for the year	14,517	8,582	3,911	27,010

	2011			
	Consumer Banking	Wholesale Banking	Support Services	Total
At 31 December	14,678	8,568	3,878	27,124
Average for the year	14,317	8,553	3,857	26,727

Premises and equipment expenses:

	2012	2011
	\$million	\$million
Rental of premises	438	420
Other premises and equipment costs	417	410
Rental of computers and equipment	31	32
	886	862

General administrative expenses:

	2012	2011
	\$million	\$million
UK Bank Levy	174	165
Settlements with the US authorities	667	-
Other general administrative expenses	1,917	1,639
	2,758	1,804

The UK bank levy is applied on the chargeable equities and liabilities on the Group's consolidated balance sheet. Key exclusions from chargeable equities and liabilities include Tier 1 capital, insured or guaranteed retail deposits, repos secured on certain sovereign debt and liabilities subject to netting.

Standard Chartered Bank

Notes to the financial statements continued

8. Operating expenses continued

The rate of the levy for 2012 is 0.088 per cent for chargeable short term liabilities, with a lower rate of 0.044 per cent generally applied to chargeable equity and long term liabilities (i.e. liabilities with a remaining maturity greater than one year). The rate for 2013 has been increased to 0.13 per cent for qualifying liabilities, with a long term rate of 0.065 per cent.

During 2012, the Group reached settlements with the US authorities regarding US sanctions compliance in the period from 2011 to 2007, involving a consent order by the New York Department of Financial Services (NYDFS), a Cease and Desist order by the Federal Reserve Bank of New York (FRBNY), Deferred Prosecution Agreements with each of the Department of Justice and with the District Attorney of New York and a Settlement Agreement with the office of Foreign Assets Control.

Auditor's remuneration

Auditor's remuneration in relation to the Group statutory audit amounts to \$3.8 million (2011: \$3.6 million) and is included within other general administration expenses. The following fees were payable by the Group to their principal auditor, KPMG Audit Plc and its associates (together 'KPMG'):

	2012 \$million	2011 \$million
Audit fees for the Group statutory audit:		
Fees relating to the current year	3.8	3.6
Fees payable to KPMG for other services provided to the Group:		
Audit of Standard Chartered PLC subsidiaries, pursuant to legislation		
Fees relating to the current year	10.7	10.5
Total audit and audit related fees	14.5	14.1
Other services pursuant to legislation	2.6	2.5
Tax services	0.9	0.6
Services relating to corporate finance transactions	0.3	0.1
All other services	0.4	1.7
Total fees payable	18.7	19.0

The following is a description of the type of services included within the categories listed above:

- Audit fees are in respect of fees payable to KPMG Audit Plc for the statutory audit of the consolidated financial statements of the Group and the separate financial statements of Standard Chartered Bank. It excludes amounts payable for the audit of Standard Chartered Bank's subsidiaries and amounts payable to KPMG Audit Plc's associates. These amounts have been included in 'Fees payable to KPMG for other services provided to the Group'.
- Other services pursuant to legislation include services for assurance and other services that are in relation to statutory and regulatory filings, including comfort letters and interim reviews.
- Tax services include tax compliance services and tax advisory services.
- Services related to corporate finance transactions include fees payable to KPMG for transaction related work irrespective of whether the Group is vendor or purchaser, such as acquisition due diligence and long-form reports.
- All other services include other assurance and advisory services such as translation services, ad-hoc accounting advice, reporting accountants work on capital raising and review of financial models.

Expenses incurred during the provision of services and which have been reimbursed by the Group are included within auditor's remuneration.

In addition to the above, KPMG estimate they have been paid fees of less than \$0.1 million (2011: \$0.1 million) by parties other than the Group but where the Group is connected with the contracting party and therefore may be involved in appointing KPMG. These fees arise from services such as the audit of the Group's pension schemes.

Fees payable to KPMG for non-audit services for Standard Chartered Bank are not separately disclosed because such fees are disclosed on a consolidated basis for the Group.

Standard Chartered Bank

Notes to the financial statements continued

9. Depreciation and amortisation

	2012 \$million	2011 \$million
Premises	127	123
Equipment:		
Operating lease assets	148	100
Other equipment	136	145
Intangibles:		
Software	190	184
Acquired on business combinations	86	87
	687	639

10. Impairment losses on loans and advances and other credit risk provisions

The following table reconciles the charge for impairment provisions on loans and advances to the total impairment charge and other credit commitments:

	2012 \$million	2011 \$million
Net charge/(release) against profit on loans and advances:		
Individual impairment	1,247	867
Portfolio impairment (release)/charge	(27)	14
	1,220	881
Provisions related to credit commitments	5	2
Impairment (release)/charge relating to debt securities classified as loans and receivables	(4)	25
Total impairment losses and other credit risk provisions	1,221	908

11. Other impairment

	2012 \$million	2011 \$million
Impairment losses on available-for-sale financial assets:		
Asset backed securities	(3)	7
Other debt securities	(16)	52
Equity shares	134	42
	115	101
Impairment of investment in associates	70	-
Other	34	40
	219	141
Recovery of impairment on disposal of equity instruments ¹	(25)	(30)
	194	111

¹ Relates to private equity instruments sold during the year which had impairment provisions raised against them in previous periods.

Standard Chartered Bank

Notes to the financial statements continued

12. Taxation

Determining the Group's taxation charge for the year involves a degree of estimation and judgement.

Analysis of taxation charge in the year:

	2012 \$million	2011 \$million
The charge for taxation based upon the profits for the year comprises:		
Current tax:		
United Kingdom corporation tax at 24.5 per cent (2011: 26.5 per cent):		
Current tax on income for the year ¹	84	1,044
Adjustments in respect of prior periods (including double taxation relief)	1	(102)
Double taxation relief ¹	(9)	(912)
Foreign tax:		
Current tax on income for the year	1,711	1,645
Adjustments in respect of prior periods	(4)	8
	1,783	1,683
Deferred tax:		
Origination/reversal of temporary differences	65	207
Adjustments in respect of prior periods	8	(42)
	73	165
Tax on profits on ordinary activities	1,856	1,848
Effective tax rate	27.4%	27.3%

The UK Corporation tax rate has been changed from 26 per cent to 24 per cent with an effective date of 1 April 2012, giving a blended rate of 24.5 per cent for the year. This change has reduced the UK deferred tax asset by \$24 million.

The taxation charge for the year is higher than the blended rate of corporation tax in the United Kingdom, 24.5 per cent.

The differences are explained below:

	2012 \$million	2011 \$million
Profit on ordinary activities before taxation	6,786	6,769
Tax at 24.5 per cent (2011: 26.5 per cent)	1,663	1,794
Effects of:		
Tax free income	(263)	(117)
Lower tax rates on overseas earnings	(338)	(200)
Higher tax rates on overseas earnings	386	322
Adjustments to tax charge in respect of previous periods	5	(136)
Branch profits exemption ¹	-	138
Non-deductible expenses	433	207
Other items	(30)	(160)
Tax on profits on ordinary activities	1,856	1,848

¹ The Group elected into the Branch Profits Exemption Regime which took effect from 1 January 2012. The election provides for the profits of foreign branches of a UK company to be exempt from UK corporation tax. Double taxation relief has also reduced as a result of the election. The prior year impact was to reduce the UK deferred tax asset by \$138 million

	2012			2011		
	Current Tax \$million	Deferred Tax \$million	Total \$million	Current Tax \$million	Deferred Tax \$million	Total \$million
Tax recognised in other comprehensive income						
Available-for-sale assets	(40)	(87)	(127)	(33)	74	41
Cash flow hedges	-	(19)	(19)	-	20	20
Retirement benefit obligations	-	14	14	-	37	37
	(40)	(92)	(132)	(33)	131	98
Other tax recognised in equity						
Share based payments	14	8	22	80	(21)	59
	14	8	22	80	(21)	59
Total tax (charge)/credit recognised in equity	(26)	(84)	(110)	47	110	157

Standard Chartered Bank

Notes to the financial statements continued

13. Dividends

Ordinary equity shares	2012	2011
Interim dividend per ordinary share (cents)	11.38	9.36
Interim dividends declared and paid during the period (\$million)	1,372	1,111
<hr/>		
Preference shares	2012	2011
	\$million	\$million
Non-cumulative redeemable preference shares:		
- 8.125 per cent preference shares of \$5 each ¹	75	75
- 7.014 per cent preference shares of \$5 each	53	53
- 6.409 per cent preference shares of \$5 each	48	48

¹ Dividends on these preference shares are treated as interest expense and accrued accordingly.

14. Directors

Remuneration of Directors

Remuneration of directors is shown below:

	2012				2011			
	Salary \$000	Annual performance award (a) \$000	Benefits (b) \$000	Total \$000	Salary \$000	Annual performance award (a) \$000	Benefits (b) \$000	Total \$000
P A Sands	1,703	3,150	385	5,238	1,693	3,500	132	5,325
S P Bertamini ^(d)	1,387	1,750	1,500	4,637	1,316	1,900	1,389	4,605
J S Bindra ^(e)	832	1,750	1,067	3,649	831	1,800	747	3,378
R H Meddings	1,268	2,160	96	3,524	1,262	2,400	79	3,741
T J Miller	832	1,500	72	2,404	831	1,350	49	2,230
A M G Rees	1,165	9,000	85	10,250	1,124	10,000	67	11,191
V Shankar	1,220	1,950	477	3,647	817	3,200	524	4,541
	8,407	21,260	3,682	33,349	7,874	24,150	2,987	35,011

- (a) The annual performance award shown here is inclusive of any upfront cash bonus, upfront shares, deferred shares and any deferred cash element, if appropriate.
- (b) The benefits column includes amounts relating to car allowances and medical and life assurance benefits. Steve Bertamini and Jaspal Bindra carry out their executive duties in a host country location and are eligible for allowances that cover the cost of accommodation and education of dependent children. In addition, their contracts of employment provide for adjustments for cost of living and tax neutralisation such that their net pay is the same as if they were to remain in their respective home countries.
- (c) Amounts shown in the benefits column will vary year on year where tax neutralisation is adopted dependent upon the timing of the taxation payments. Actual amounts paid each year can vary even though there is no change in the underlying level of remuneration. One consequence of this fact is that the benefits figure for Steve Bertamini increased by \$110,689 and for Jaspal Bindra by \$319,933 for 2012.
- (d) In 2012, a contract settlement of \$213,244 was made with HM Revenue and Customs in respect of the taxation and national insurance contributions for the company car benefit that Peter Sands received between 2006 and 2012.
- (e) Steve Bertamini and V Shankar received cash pension allowances of \$387,499 (2011: \$341,246) and \$348,489 (2011: \$285,870) in lieu of their participation in any pension plan and this is reflected in the table above, as part of salary/fees.
- (f) In 2011, Jaspal Bindra waived \$249,231 of the cash element of his annual performance award in to his pension arrangement. In 2012, Jaspal waived \$764,422 (2011: \$711,912) of his base salary in to his pension arrangement.
- (g) Any base salary/fee or benefit item in the table above has been converted using the average foreign exchange rates throughout the relevant financial year. The rates are \$1: GBP0.6311 (2012) and \$1:GBP0.6239 (2011). V Shankar's base salary has been converted using \$1:AED3.6730 (2012) and \$1: AED3.6730 (2011).

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Notes to the financial statements continued

14. Directors continued

Deferred compensation

In recognition of the substantial elements of deferred compensation and share awards forfeited when he left his previous employer, Steve Bertamini participates in a deferred compensation arrangement under which a total of \$6,500,000 was initially allocated into an interest bearing account with the option for all or part of the value to be invested in alternative assets at his discretion. The original allocation (together with the accrued interest and investment returns) vests in three tranches unless he resigns or is terminated for cause: \$3,000,000 after the second, \$2,000,000 after the fourth and \$1,500,000 after the sixth anniversary of joining. No further awards are planned. The second vesting date was reached during the year and \$2,653,000 (before tax) was paid to Steve Bertamini.

Retirement benefits

No changes have been made to the terms and conditions applying to the defined benefit promises and executive directors retain any existing opportunity to waive a proportion of the cash element of any potential annual performance award or their annual base salary to enhance their unapproved retirement benefits. Any amounts waived in respect of this year are shown in the directors' retirement benefits table; our consulting actuary has calculated the additional pension benefits using assumptions adopted for International Accounting Standard 19 reporting.

Defined benefit pension provision continues to be made through a combination of the Standard Chartered Pension Fund, an approved non-contributory plan, and an unapproved retirement benefit plan. The unapproved plan is unfunded but the benefits accrued prior to 1 April 2011 are secured by a charge, in the name of an independent trustee, over specific assets. The unapproved unfunded retirement benefit scheme provides the part of the executive's benefit that exceeds the UK Government's lifetime allowance. In other respects the terms of the unapproved scheme are designed to mirror the provisions of the Standard Chartered Pension Fund. Upon the death in service of an executive director, benefits are available to a spouse and dependent children in a lump sum form.

Base salary is the only element of remuneration that is pensionable.

Executive directors with defined benefit provisions

	Accrued pension \$000 (a)		Transfer value of accrued pension \$000				Increase in accrued pension (net of inflation and waiver) during 2012 \$000 (b)		
	At 1 January 2012	Increase during the year	At 31 December 2012	At 1 January 2012	Increase/ (decrease) during the year net of waiver	At 31 December 2012	2012 waiver \$000 (c)	Annual pension	Transfer value
P A Sands	494	66	584	7,857	2,390	10,658	-	52	962
J S Bindra ^(c)	216	71	299	3,573	1,098	5,649	1,019	24	461
R H Meddings	466	52	540	8,021	2,012	10,441	-	39	763
T J Miller	270	38	322	4,681	1,156	6,218	111	24	480
A M G Rees	476	62	561	8,388	2,443	11,266	-	49	1,014

Notes

- The accrued pension amounts include benefits arising from transfer payments received in respect of services with previous employers.
- The increase in the accrued pension (net of inflation and waiver) during the year is the difference between the accrued pension at the end of 2012 increased by an allowance for inflation of 2.7 per cent (2011: 5.2 per cent) and the accrued pension at the end of 2012 excluding any waiver.
- Jaspal Bindra made no waiver from his 2012 annual performance award (2011: \$249,231) and \$764,422 of his 2012 base salary (2011: \$711,912).
- The amounts included in the table above as at 1 January and 31 December 2012 are calculated using the exchange rates at the end of 2012 (0.6437) and 2011 (0.6161) respectively. The other entries are calculated using annual average exchange rates of 2012 (0.6311) and 2011 (0.6239).

Standard Chartered Bank

Notes to the financial statements continued

15. Financial instruments

Classification

Financial assets are classified between four measurement categories: held at fair value through profit or loss (comprising trading and designated), available-for-sale, loans and receivables and held-to-maturity; and two measurement categories for financial liabilities: held at fair value through profit or loss (comprising trading and designated) and amortised cost. Instruments are classified in the balance sheet in accordance with their legal form, except for instruments that are held for trading purposes and those that the Group has designated to hold at fair value through the profit and loss account. The latter are combined on the face of the balance sheet and disclosed as financial assets or liabilities held at fair value through profit or loss.

The Group's classification of its principal financial assets and liabilities is summarised in the table below.

Group

Assets	Notes	Assets at fair value			Assets at amortised cost				Total \$million
		Trading \$million	Derivatives held for hedging \$million	Designated at fair value through profit or loss \$million	Available- for-sale \$million	Loans and receivables \$million	Held-to- maturity \$million	Non-financial assets \$million	
Cash and balances at central banks		-	-	-	-	61,043	-	-	61,043
Financial assets held at fair value through profit or loss									
Loans and advances to banks ¹		677	-	97	-	-	-	-	774
Loans and advances to customers ¹		4,793	-	185	-	-	-	-	4,978
Treasury bills and other eligible bills	16	2,955	-	-	-	-	-	-	2,955
Debt securities	16	14,890	-	333	-	-	-	-	15,223
Equity shares	16	2,140	-	1,014	-	-	-	-	3,154
		25,455	-	1,629	-	-	-	-	27,084
Derivative financial instruments	17	48,136	1,360	-	-	-	-	-	49,496
Loans and advances to banks ¹	18	-	-	-	-	68,380	-	-	68,380
Loans and advances to customers ¹	19	-	-	-	-	283,885	-	-	283,885
Investment securities									
Treasury bills and other eligible bills	21	-	-	-	26,871	-	-	-	26,871
Debt securities	21	-	-	-	65,413	3,851	-	-	69,264
Equity shares	21	-	-	-	3,278	-	-	-	3,278
		-	-	-	95,562	3,851	-	-	99,413
Other assets	22	-	-	-	-	21,659	-	7,086	28,745
Total at 31 December 2012		73,591	1,360	1,629	95,562	438,818	-	7,086	618,046
Cash and balances at central banks		-	-	-	-	47,364	-	-	47,364
Financial assets held at fair value through profit or loss									
Loans and advances to banks ¹		463	-	105	-	-	-	-	568
Loans and advances to customers ¹		4,676	-	312	-	-	-	-	4,988
Treasury bills and other eligible bills	16	4,609	-	-	-	-	-	-	4,609
Debt securities	16	13,025	-	45	-	-	-	-	13,070
Equity shares	16	1,028	-	565	-	-	-	-	1,593
		23,801	-	1,027	-	-	-	-	24,828
Derivative financial instruments ²	17	57,128	1,439	-	-	-	-	-	58,567
Loans and advances to banks ¹	18	-	-	-	-	65,980	-	-	65,980
Loans and advances to customers ^{1,2}	19	-	-	-	-	266,790	-	-	266,790
Investment securities									
Treasury bills and other eligible bills	21	-	-	-	21,680	-	-	-	21,680
Debt securities	21	-	-	-	55,567	5,475	18	-	61,060
Equity shares	21	-	-	-	2,543	-	-	-	2,543
		-	-	-	79,790	5,475	18	-	85,283
Other assets	22	-	-	-	-	20,554	-	6,595	27,149
Total at 31 December 2011		80,929	1,439	1,027	79,790	406,163	18	6,595	575,961

¹ Further analysed in Risk review on pages 14 to 82.

² Amounts have been restated as explained in note 46

Standard Chartered Bank

Notes to the financial statements continued

15. Financial instruments continued

Classification continued

Group

Liabilities	Notes	Liabilities at fair value					Total \$million
		Trading \$million	Derivatives held for hedging \$million	Designated at fair value through profit or loss \$million	Amortised cost \$million	Non-financial liabilities \$million	
Financial liabilities held at fair value through profit or loss							
Deposits by banks		933	-	35	-	-	968
Customer accounts		4,858	-	7,385	-	-	12,243
Debt securities in issue		3,902	-	1,359	-	-	5,261
Short positions		4,592	-	-	-	-	4,592
		14,285	-	8,779	-	-	23,064
Derivative financial instruments	17	47,461	733	-	-	-	48,194
Deposits by banks	28	-	-	-	36,477	-	36,477
Customer accounts	29	-	-	-	377,639	-	377,639
Debt securities in issue	30	-	-	-	41,445	-	41,445
Other liabilities	31	-	-	-	19,739	4,769	24,508
Subordinated liabilities and other borrowed funds	32	-	-	-	23,084	-	23,084
Total at 31 December 2012		61,746	733	8,779	498,384	4,769	574,411

Financial liabilities held at fair value through profit or loss

Deposits by banks		973	-	119	-	-	1,092
Customer accounts		1,518	-	7,600	-	-	9,118
Debt securities in issue		2,441	-	1,992	-	-	4,433
Short positions		4,956	-	-	-	-	4,956
		9,888	-	9,711	-	-	19,599
Derivative financial instruments ¹	17	56,085	1,033	-	-	-	57,118
Deposits by banks	28	-	-	-	35,296	-	35,296
Customer accounts ¹	29	-	-	-	345,726	-	345,726
Debt securities in issue	30	-	-	-	35,766	-	35,766
Other liabilities	31	-	-	-	19,169	4,600	23,769
Subordinated liabilities and other borrowed funds	32	-	-	-	19,462	-	19,462
Total at 31 December 2011		65,973	1,033	9,711	455,419	4,600	536,736

¹ Amounts have been restated as explained in note 46.

Standard Chartered Bank

Notes to the financial statements continued

15. Financial instruments continued

Classification continued

Company

Assets	Notes	Assets at fair value			Assets at amortised cost			Total \$million	
		Trading \$million	Derivatives held for hedging \$million	Designated at fair value through profit or loss \$million	Available- for-sale \$million	Loans and receivables \$million	Held-to- maturity \$million		Non-financial assets \$million
Cash and balances at central banks		-	-	-	-	49,655	-	-	49,655
Financial assets held at fair value through profit or loss									
Loans and advances to banks ¹		677	-	97	-	-	-	-	774
Loans and advances to customers ¹		4,769	-	71	-	-	-	-	4,840
Treasury bills and other eligible bills	16	721	-	-	-	-	-	-	721
Debt securities	16	8,925	-	-	-	-	-	-	8,925
Equity shares	16	1,767	-	-	-	-	-	-	1,767
		16,859	-	168	-	-	-	-	17,027
Derivative financial instruments	17	46,121	1,322	-	-	-	-	-	47,443
Loans and advances to banks ¹	18	-	-	-	-	37,250	-	-	37,250
Loans and advances to customers ¹	19	-	-	-	-	137,982	-	-	137,982
Investment securities									
Treasury bills and other eligible bills	21	-	-	-	8,805	-	-	-	8,805
Debt securities	21	-	-	-	31,782	2,271	-	-	34,053
Equity shares	21	-	-	-	757	-	-	-	757
		-	-	-	41,344	2,271	-	-	43,615
Other assets	22	-	-	-	-	12,715	-	6,064	18,779
Total at 31 December 2012		62,980	1,322	168	41,344	239,873	-	6,064	351,751
Cash and balances at central banks		-	-	-	-	36,268	-	-	36,268
Financial assets held at fair value through profit or loss									
Loans and advances to banks ¹		461	-	105	-	-	-	-	566
Loans and advances to customers ¹		4,652	-	126	-	-	-	-	4,778
Treasury bills and other eligible bills	16	894	-	-	-	-	-	-	894
Debt securities	16	6,476	-	-	-	-	-	-	6,476
Equity shares	16	872	-	-	-	-	-	-	872
		13,355	-	231	-	-	-	-	13,586
Derivative financial instruments ²	17	55,613	1,316	-	-	-	-	-	56,929
Loans and advances to banks ¹	18	-	-	-	-	36,972	-	-	36,972
Loans and advances to customers ^{1,2}	19	-	-	-	-	123,273	-	-	123,273
Investment securities									
Treasury bills and other eligible bills	21	-	-	-	6,808	-	-	-	6,808
Debt securities	21	-	-	-	27,095	3,840	-	-	30,935
Equity shares	21	-	-	-	673	-	-	-	673
		-	-	-	34,576	3,840	-	-	38,416
Other assets	22	-	-	-	-	11,411	-	4,647	16,058
Total at 31 December 2011		68,968	1,316	231	34,576	211,764	-	4,647	321,502

¹ Further analysed in Risk review on pages 14 to 82.

² Amounts have been restated as explained in note 46.

Standard Chartered Bank

Notes to the financial statements continued

15. Financial instruments continued

Classification continued

Company

Liabilities	Notes	Liabilities at fair value					Total \$million
		Trading \$million	Derivatives held for hedging \$million	Designated at fair value through profit or loss \$million	Amortised cost \$million	Non-financial liabilities \$million	
Financial liabilities held at fair value through profit or loss							
Deposits by banks		933	-	35	-	-	968
Customer accounts		4,691	-	277	-	-	4,968
Debt securities in issue		3,869	-	-	-	-	3,869
Short positions		1,696	-	-	-	-	1,696
		11,189	-	312	-	-	11,501
Derivative financial instruments	17	45,315	682	-	-	-	45,997
Deposits by banks	28	-	-	-	28,375	-	28,375
Customer accounts	29	-	-	-	169,882	-	169,882
Debt securities in issue	30	-	-	-	31,959	-	31,959
Other liabilities	31	-	-	-	9,318	2,420	11,738
Subordinated liabilities and other borrowed funds	32	-	-	-	20,107	-	20,107
Total at 31 December 2012		56,504	682	312	259,641	2,420	319,559

Financial liabilities held at fair value through profit or loss

Deposits by banks		973	-	40	-	-	1,013
Customer accounts		1,465	-	381	-	-	1,846
Debt securities in issue		2,366	-	-	-	-	2,366
Short positions		1,630	-	-	-	-	1,630
		6,434	-	421	-	-	6,855
Derivative financial instruments ¹	17	54,917	786	-	-	-	55,703
Deposits by banks	28	-	-	-	27,933	-	27,933
Customer accounts ¹	29	-	-	-	150,772	-	150,772
Debt securities in issue	30	-	-	-	24,923	-	24,923
Other liabilities	31	-	-	-	8,361	2,658	11,019
Subordinated liabilities and other borrowed funds	32	-	-	-	16,288	-	16,288
Total at 31 December 2011		61,351	786	421	228,277	2,658	293,493

¹ Amounts have been restated as explained in note 46.

Valuation of financial instruments

Valuation of financial assets and liabilities held at fair value are subject to a review independent of the Business by Valuation Control. Valuation Control performs price testing by comparing external and independent market data (e.g. consensus data, trade prices and broker quotes) against internal data. Financial instruments held at fair value in the balance sheet have been classified into a three level valuation hierarchy (see below for how each level is defined and the types of instruments included within them) that reflects the significance of the observability of the inputs used in the fair value measurement.

The market data used for price testing may include those sourced from recent trade data involving external counterparties or third parties such as Bloomberg, Reuters, brokers and consensus pricing providers. The market data used should be most representative of the market as much as possible, which can evolve over time as markets and financial instruments develop. To determine the extent of how representative the market data is, factors such as independence, relevance, reliability, availability of multiple data sources and methodology employed by the pricing provider are considered.

For instruments classified as level 2 or level 3 fair value adjustments are also made to system valuations to arrive at fair value in accordance with accounting requirements. The main adjustments are described below:

Bid Offer Valuation Adjustments

Where market parameters are marked on a mid market basis in the revaluation systems, a bid offer valuation adjustment is required to quantify the expected cost of neutralising the Business' positions through dealing away in the market, thereby bringing long positions to bid and short positions to offer. Where long positions are marked to bid and short positions marked to offer in the systems, e.g. for cash securities, no bid offer valuation adjustments are required.

Standard Chartered Bank

Notes to the financial statements continued

15. Financial instruments continued

Valuation of financial instruments continued

Credit Adjustments

The Group makes a credit adjustment (CA) against derivative products, which represents an estimate of the adjustment to fair value that reflects the possibility that the counterparty may default such that the Group would not receive the full market value of the transactions. For CA, AIRB models are used to calculate the PD and LGD which, together with the results of the exposure simulation engine, generates a view of expected losses. The Group assesses actual losses and provisions incurred against expected losses on a portfolio basis, taking into account the fact that it takes a number of years for the workout/recovery process to complete upon a default.

In addition to periodic reassessment of the counterparties, credit exposures and external trends which may impact risk management outcomes are closely monitored. Accounts or portfolios are placed on Early Alert when they display signs of weakness or financial deterioration, for example where there is a decline in the customer's position within the industry, a breach of covenants, non-performance of an obligation, or there are issues relating to ownership or management. As a result, the reserve represents a dynamic calculation based on the credit quality of the counterparties, collateral positions and exposure profiles.

The CA is not significant in the context of the overall fair value of these financial instruments.

Model Valuation Adjustments

Certain models may have pricing deficiencies or limitations that justify a valuation adjustment. These pricing deficiencies or limitations arise could be due to the choice, implementation and calibration of the pricing model, amongst other reasons.

Day One Profit and Loss

A financial instrument is initially recognised at fair value, which is generally its transaction price. In those cases where the value obtained from the relevant valuation model differs, we record the asset or liability based on our valuation model, but do not recognise that initial difference in profit and loss. This is unless the valuation model used is widely accepted and all inputs to the model are observable.

Funding Adjustments

Funding valuation adjustments account for the additional costs of funding in the valuation of funded derivative transactions. Examples of funded derivative transactions are prepaid swaps or funded loans in the form of a derivative.

In total, the Group has made \$349 million (2011: \$334 million) of valuation adjustments in determining fair value for financial assets and financial liabilities.

Valuation adjustments	2012	2011
Bid offer	80	92
Credit	133	127
Model	10	20
Funding	73	55
Others (including Day 1)	53	40
Total	349	334

Control framework

A Product Valuation Committee exists for each business where there is a material valuation risk. The Committees meet monthly and comprise representatives from Front Office, Group Market Risk, Product Control and Valuation Control. The Committees are responsible for reviewing the results of the valuation control process.

Standard Chartered Bank

Notes to the financial statements continued

15. Financial instruments continued

Valuation of financial instruments continued

Valuation hierarchy

The valuation hierarchy, and the types of instruments classified into each level within that hierarchy, is set out below:

	Level 1	Level 2	Level 3
Fair value determined using:	Unadjusted quoted prices in an active market for identical assets and liabilities	Direct or indirectly observable inputs other than unadjusted quoted prices included within Level 1 that are observable	One or more significant inputs for the asset or liability that are not based on observable market data (unobservable inputs)
Types of financial assets:	Actively traded government and other securities Listed equities Listed derivative instruments Investments in publicly traded mutual funds with listed market prices	Corporate and other government bonds and loans Over-the-counter (OTC) derivatives Asset backed securities	Asset backed securities Private equity investments Highly structured OTC derivatives with unobservable inputs Illiquid or highly structured corporate bonds with unobservable inputs Illiquid loans and advances
Types of financial liabilities:	Listed derivative instruments	OTC derivatives Structured deposits Credit structured debt securities in issue	Highly structured OTC derivatives with unobservable inputs Illiquid or highly structured debt securities in issue with unobservable inputs

Level 1 portfolio

Level 1 assets and liabilities are typically exchange traded positions and some government bonds traded in active markets. These positions are valued using unadjusted quoted prices in active markets.

Level 2 portfolio

Where instruments are not quoted in an active market the Group utilises a number of valuation techniques to determine fair value. These valuation techniques include discounted cash flow analysis models, option pricing models, simulation models and other standard models commonly used by market participants. Valuation techniques incorporate assumptions that other market participants would use in their valuations, such as discount rates, default rates, credit spreads and option volatilities. These inputs need to be directly or indirectly observable in order to be classified as Level 2.

In line with changes in market practice, certain interest rate swaps have been subject to overnight index swap (OIS) rate discounting in 2012. The factors to be considered for the selection of such interest rate swaps include the currency in which the swaps are traded, counterparties with credit support annex agreement and the form of the collateral posted by the counterparties.

Level 3 portfolio

Level 3 assets are valued using techniques similar to those outlined for Level 2, except that if the instrument has one or more inputs that are unobservable and significant to the fair value measurement of the instrument in its entirety, it will be classified as Level 3.

At 31 December 2012, the Group held level 3 assets with a fair value of \$5,109 million (2011: \$3,347 million) and level 3 liabilities with a fair value of \$677 million (2011: \$356 million) were held in respect of which there was no observable market data, the Company held level 3 assets with a fair value of \$1,948 million (2011: \$1,086 million) and level 3 liabilities with a fair value \$534 million (2011: \$349million) were held in respect of which there was no observable market data. For these instruments, a sensitivity analysis is presented on page 136 in respect of reasonably possible changes to the valuation assumptions.

The primary products classified as Level 3 are as follows:

Loan and advances

These include loans in the global syndications underwriting book which are not syndicated yet. These loans are generally bilateral in nature and their valuation is primarily based on recent trades or proxies, i.e. comparable loans with similar credit grade, sector etc. Where there are no recent transactions and reliable comparable loans to proxy from, the valuation of these loans is based on unobservable inputs resulting in them being classified as level 3.

Debt securities - Asset backed securities

Due to the severe lack of liquidity in the market and the prolonged period of time under which many securities have not traded, obtaining external prices is not a strong enough measure to determine whether an asset has an observable price or not. Therefore, once external pricing has been verified, an assessment is made whether each security is traded in a liquid manner based on its credit rating and sector. If a security is of low credit rating and/or is traded in a less liquid sector, it will be classified as Level 3. Where third party pricing is not available, the valuation of the security will be estimated from market standard cash flow models with input parameter assumptions which include prepayment speeds and default rates. These input parameter assumptions are estimated with reference to factors such as underlying collateral performance, prices of comparable securities and sector spreads. These securities are also classified as Level 3.

Standard Chartered Bank

Notes to the financial statements continued

15. Financial instruments continued

Valuation of financial instruments continued

Debt securities

These debt securities include certain convertible bonds, corporate bonds, credit and equity structured notes where there are significant valuation inputs which are unobservable in the market, due to illiquid trading or the complexity of the product. Debt securities are valued using available prices provided through pricing vendors, brokers or trading activities. Where such liquid external prices are not available, valuation of these cash securities are implied using input parameters such as bond spreads and credit spreads. These input parameters are determined with reference to the same issuer (if available) or proxied from comparable issuers or assets.

Equity shares - Private equity

Private equity investments are generally valued based on earning multiples - Price-to-Earnings (P/E) or Enterprise Value to Earning Before Income Tax, Depreciation and Amortisation (EV/EBITDA) ratios - of comparable listed companies. The two primary inputs for the valuation of these investments are the actual or forecast earnings of the investee companies and earning multiples for the comparable listed companies. In circumstances where an investment doesn't have direct comparables or where the multiples for the comparable companies cannot be sourced from reliable external sources, alternate valuation techniques (for example, discounted cash flow models), which use predominantly unobservable inputs or level 3 inputs, may be applied. Even though earning multiples for the comparable listed companies can be sourced from third party sources (for example, Bloomberg), and those inputs can be deemed Level 2 inputs, all unlisted investments (excluding those where observable inputs are available, for example, OTC prices) are classified as Level 3 on the grounds that the valuation methods involve judgments ranging from determining comparable companies to discount rates where the discounted cash flow method is applied.

Derivatives

These trading derivatives are classified as Level 3 if there are parameters which are unobservable in the market, such as products where the performance is linked to more than one underlying. Examples are foreign exchange basket options, equity options based on the performance of two or more underlying indices and interest rate products with quanto payouts. These unobservable correlation parameters could only be implied from the market, through methods such as historical analysis and comparison to historical levels or benchmark data.

Debt securities in issue

These debt securities relate to credit structured notes issued by the Group where there are significant valuation inputs which are unobservable in the market, due to illiquid trading or the complexity of the product. Debt securities are valued using available prices provided through pricing vendors, brokers or trading activities. Where such liquid external prices are not available, valuation of these debt securities are implied using input parameters such as bond spreads and credit spreads. These input parameters are determined with reference to the same issuer (if available) or proxied from comparable issuers or assets.

Standard Chartered Bank

Notes to the financial statements continued

15. Financial instruments continued

Valuation of financial instruments continued

The table below shows the classification of financial instruments held at fair value into the valuation hierarchy set out above as at 31 December 2012.

Group

Assets	Level 1 \$million	Level 2 \$million	Level 3 \$million	Total \$million
Financial instruments held at fair value through profit or loss				
Loans and advances to banks	97	677	-	774
Loans and advances to customers	-	4,068	910	4,978
Treasury bills and other eligible bills	2,812	143	-	2,955
Debt securities	8,531	6,516	176	15,223
Equity shares	2,029	-	1,125	3,154
	13,469	11,404	2,211	27,084
Derivative financial instruments	260	48,750	486	49,496
Investment securities				
Treasury bills and other eligible bills	22,912	3,901	58	26,871
Debt securities	20,828	44,189	396	65,413
Equity shares	1,307	13	1,958	3,278
	45,047	48,103	2,412	95,562
At 31 December 2012	58,776	108,257	5,109	172,142
Liabilities				
Financial instruments held at fair value through profit or loss				
Deposit by banks	-	968	-	968
Customer accounts	68	12,175	-	12,243
Debt securities in issues	-	5,147	114	5,261
Short positions	4,320	272	-	4,592
	4,388	18,562	114	23,064
Derivative financial instruments	383	47,248	563	48,194
At 31 December 2012	4,771	65,810	677	71,258

There were no significant transfers between level 1 and level 2 in 2012.

Standard Chartered Bank

Notes to the financial statements continued

15. Financial instruments continued

Valuation of financial instruments continued

The table below shows the classification of financial instruments held at fair value into the valuation hierarchy set out above as at 31 December 2011.

Group

Assets	Level 1 \$million	Level 2 \$million	Level 3 \$million	Total \$million
Financial instruments held at fair value through profit or loss				
Loans and advances to banks	110	458	-	568
Loans and advances to customers	5	4,983	-	4,988
Treasury bills and other eligible bills	4,502	107	-	4,609
Debt securities	7,516	5,261	293	13,070
Equity shares	1,027	-	566	1,593
	13,160	10,809	859	24,828
Derivative financial instruments	396	57,895	276	58,567
Investment securities				
Treasury bills and other eligible bills	18,831	2,800	49	21,680
Debt securities	17,938	36,884	745	55,567
Equity shares	1,116	9	1,418	2,543
	37,885	39,693	2,212	79,790
At 31 December 2011	51,441	108,397	3,347	163,185
Liabilities				
Financial instruments held at fair value through profit or loss				
Deposit by banks	104	988	-	1,092
Customer accounts	-	9,118	-	9,118
Debt securities in issues	-	4,261	172	4,433
Short positions	4,483	473	-	4,956
	4,587	14,840	172	19,599
Derivative financial instruments	549	56,385	184	57,118
At 31 December 2011	5,136	71,225	356	76,717

There were no significant transfers between Level 1 and Level 2 in 2011.

Standard Chartered Bank

Notes to the financial statements continued

15. Financial instruments continued

Valuation of financial instruments continued

The tables below shows the classification of financial instruments held at fair value into the valuation hierarchy set out above as at 31 December 2012

Company

Assets	Level 1 \$million	Level 2 \$million	Level 3 \$million	Total \$million
Financial instruments held at fair value through profit or loss				
Loans and advances to banks	97	677	-	774
Loans and advances to customers	-	3,930	910	4,840
Treasury bills and other eligible bills	686	35	-	721
Debt securities	4,336	4,417	172	8,925
Equity shares	1,767	-	-	1,767
	6,886	9,059	1,082	17,027
Derivative financial instruments	257	46,752	434	47,443
Investment securities				
Treasury bills and other eligible bills	7,522	1,283	-	8,805
Debt securities	10,889	20,538	355	31,782
Equity shares	675	5	77	757
	19,086	21,826	432	41,344
At 31 December 2012	26,229	77,637	1,948	105,814
Liabilities				
Financial instruments held at fair value through profit or loss				
Deposit by banks	-	968	-	968
Customer accounts	68	4,900	-	4,968
Debt securities in issues	-	3,755	114	3,869
Short positions	1,424	272	-	1,696
	1,492	9,895	114	11,501
Derivative financial instruments	380	45,197	420	45,997
At 31 December 2012	1,872	55,092	534	57,498

There were no significant transfers between level 1 and level 2 in 2012.

Standard Chartered Bank

Notes to the financial statements continued

15. Financial instruments continued

Valuation of financial instruments continued

The tables below shows the classification of financial instruments held at fair value into the valuation hierarchy set out above as at 31 December 2011

Company

Assets	Level 1	Level 2	Level 3	Total
	\$million	\$million	\$million	\$million
Financial instruments held at fair value through profit or loss				
Loans and advances to banks	110	456	-	566
Loans and advances to customers	5	4,773	-	4,778
Treasury bills and other eligible bills	891	3	-	894
Debt securities	3,207	3,028	241	6,476
Equity shares	871	-	1	872
	5,084	8,260	242	13,586
Derivative financial instruments	564	56,096	269	56,929
Investment securities				
Treasury bills and other eligible bills	5,512	1,296	-	6,808
Debt securities	10,185	16,401	509	27,095
Equity shares	602	5	66	673
	16,299	17,702	575	34,576
At 31 December 2011	21,947	82,058	1,086	105,091
Liabilities				
Financial instruments held at fair value through profit or loss				
Deposit by banks	-	1,013	-	1,013
Customer accounts	-	1,846	-	1,846
Debt securities in issues	-	2,194	172	2,366
Short positions	1,157	473	-	1,630
	1,157	5,526	172	6,855
Derivative financial instruments	653	54,873	177	55,703
At 31 December 2011	1,810	60,399	349	62,558

There were no significant transfers between Level 1 and Level 2 in 2011.

Standard Chartered Bank

Notes to the financial statements continued

15. Financial instruments continued

Level 3 movement tables

Financial assets

Group

Assets	Held at fair value through profit or loss				Investment securities			Total
	Loans and advances to customers	Debt securities	Equity shares	Derivative financial instruments	Treasury bills	Debt securities	Equity shares	
	\$million	\$million	\$million	\$million	\$million	\$million	\$million	\$million
At 1 January 2012	-	293	566	276	49	745	1,418	3,347
Total gains/(losses) recognised in income statement	-	9	313	(48)	-	48	(13)	309
Total (losses)/gains recognised in other comprehensive income	-	-	-	-	-	(56)	133	77
Purchases	-	22	310	336	42	134	525	1,369
Sales	-	(5)	(64)	(13)	-	(199)	(71)	(352)
Settlements	(27)	(97)	-	(60)	-	(17)	(23)	(224)
Transfers out	-	(96)	-	(5)	(33)	(261)	(16)	(411)
Transfers in	937	50	-	-	-	2	5	994
At 31 December 2012	910	176	1,125	486	58	396	1,958	5,109
Total (losses)/gains recognised in the income statement relating to assets held at 31 December 2012	-	(10)	195	(30)	-	-	-	155

Transfers in during the year primarily relate to loans held within the Group's global syndicates underwriting book where the valuation parameters became unobservable during the year.

Transfers out during the year primarily relate to certain corporate desk securities where the valuation parameters became observable during the year and were transferred to level 2 financial assets.

Assets	Held at fair value through profit or loss			Investment securities			Total
	Debt securities	Equity shares	Derivative financial instruments	Treasury bills	Debt securities	Equity shares	
	\$million	\$million	\$million	\$million	\$million	\$million	\$million
At 1 January 2011	227	301	187	-	582	1,051	2,348
Total (losses)/gains recognised in income statement	(30)	73	136	-	(52)	69	196
Total (losses)/gains recognised in other comprehensive income	-	-	-	(4)	(52)	(199)	(255)
Purchases	223	210	68	-	226	416	1,143
Sales	(73)	(18)	(7)	-	(189)	(142)	(429)
Settlements	(89)	-	(88)	-	(33)	(41)	(251)
Transfers out	(94)	-	(33)	-	(246)	(74)	(447)
Transfers in	129	-	13	53	509	338	1,042
At 31 December 2011	293	566	276	49	745	1,418	3,347
Total gains recognised in the income statement relating to assets held at 31 December 2011	13	62	187	-	-	-	262

Transfers in during the year primarily relate to markets for certain debt securities and equity shares becoming illiquid or where the valuation parameters became unobservable during the year

Transfers out during the year primarily relate to certain financial instruments where the valuation parameters became observable during the year and were transferred to level 2 financial assets.

Standard Chartered Bank

Notes to the financial statements continued

15. Financial instruments continued

Level 3 movement tables continued

Company

Assets	Held at fair value through profit or loss			Investment securities				Total \$million
	Debt securities	Equity shares	Derivative financial instruments	Treasury bills	Debt securities	Equity shares	Loans and advances to customers	
	\$million	\$million	\$million	\$million	\$million	\$million	\$million	
At 1 January 2012	241	1	269	-	509	66	-	1,086
Total gains/(losses) recognised in income statement	9	(1)	(31)	-	-	-	-	(23)
Total gains recognised in other comprehensive income	-	-	-	-	(89)	1	-	(88)
Purchases	22	-	334	-	133	18	-	507
Sales	(95)	-	(13)	-	(199)	-	-	(307)
Settlements	(7)	-	(120)	-	(1)	-	(27)	(155)
Transfers out	-	-	(5)	-	-	(8)	-	(13)
Transfers in	2	-	-	-	2	-	937	941
At 31 December 2012	172	-	434	-	355	77	910	1,948
Total losses recognised in the income statement relating to assets held at 31 December 2012	(10)	-	(8)	-	-	-	-	(18)

Transfers in during the year primarily relate to loans held within the Group's global syndicates underwriting book where the valuation parameters became unobservable during the year.

Transfers out during the year primarily relate to certain corporate desk securities where the valuation parameters became observable during the year and were transferred to level 2 financial assets.

Assets	Held at fair value through profit or loss			Investment securities				Total \$million
	Debt securities	Equity shares	Derivative financial instruments	Treasury bills	Debt securities	Equity shares		
	\$million	\$million	\$million	\$million	\$million	\$million	\$million	
At 1 January 2011	205	-	254	-	650	55	-	1,164
Total(losses)/gains recognised in income statement	(34)	-	86	-	-	(1)	-	51
Total gains recognised in other comprehensive income	-	-	-	-	33	1	-	34
Purchases	195	1	71	-	149	13	-	429
Sales	(45)	-	(41)	-	(144)	-	-	(230)
Settlements	(73)	-	(69)	-	(2)	(2)	-	(146)
Transfers out	(30)	-	(35)	-	(246)	-	-	(311)
Transfers in	23	-	3	-	69	-	-	95
At 31 December 2011	241	1	269	-	509	66	-	1,086
Total gains recognised in the income statement relating to assets held at 31 December 2011	12	-	168	-	-	-	-	180

Transfers in during the year primarily relate to markets for certain debt securities and equity shares becoming illiquid or where the valuation parameters became unobservable during the year.

Transfers out during the year primarily relate to certain financial instruments where the valuation parameters became observable during the year and were transferred to level 2 financial assets.

Standard Chartered Bank

Notes to the financial statements continued

15. Financial instruments continued

Level 3 movement tables continued

Financial liabilities

Group

	2012			2011		
	Debt securities in issue \$million	Derivative financial instruments \$million	Total \$million	Debt securities in issue \$million	Derivative financial instruments \$million	Total \$million
Liabilities						
At 1 January	172	184	356	311	282	593
Total (gains)/losses recognised in income statement	(43)	80	37	(8)	38	30
Issues	50	324	374	65	51	116
Settlements	(28)	(25)	(53)	(242)	(128)	(370)
Transfers out	(37)	-	(37)	(34)	(59)	(93)
Transfers in	-	-	-	80	-	80
At 31 December	114	563	677	172	184	356
Total losses/(gains) recognised in the income statement relating to liabilities held at 31 December	3	44	47	(38)	37	(1)

Transfers in during the periods primarily relate to certain financial instruments which parameters became unobservable during the year.

Transfers out during the year primarily relate to certain financial instruments where the valuation parameters became observable during the year and were transferred to level 2 financial liabilities.

Company

	2012			2011		
	Debt securities in issue \$million	Derivative financial instruments \$million	Total \$million	Debt securities in issue \$million	Derivative financial instruments \$million	Total \$million
Liabilities						
At 1 January	172	93	265	270	157	427
Total gains recognised in income statement	(42)	38	(4)	(7)	(13)	(20)
Issues	50	323	373	65	56	121
Settlements	(28)	(117)	(145)	(210)	(90)	(300)
Transfers out	(38)	(1)	(39)	(26)	(58)	(84)
Transfers in	-	84	84	80	125	205
At 31 December	114	420	534	172	177	349
Total (gains)/losses recognised in the income statement relating to liabilities held at 31 December	3	43	46	(38)	76	38

Transfers in during the periods primarily relate to certain financial instruments where valuation parameters became unobservable during the year.

Transfers out during the year primarily relate to certain financial instruments where the valuation parameters became observable during the year and were transferred to level 2 financial liabilities.

Standard Chartered Bank

Notes to the financial statements continued

15. Financial instruments continued

Sensitivities in respect of the fair values of Level 3 assets and liabilities

Group

	Held at fair value through profit or loss			Investment securities		
	Net exposure	Favourable Changes	Unfavourable Changes	Net exposure	Favourable Changes	Unfavourable Changes
At 31 December 2012	\$million	\$million	\$million	\$million	\$million	\$million
Financial instruments held at fair value through profit or loss						
Debt securities	176	180	171	-	-	-
Equity shares	1,125	1,237	1,013	-	-	-
Loan and advances	910	924	896	-	-	-
Derivative financial instruments	(77)	2	(154)	-	-	-
Debt securities in issue	(114)	(114)	(114)	-	-	-
Investment securities						
Treasury bills	-	-	-	58	58	58
Debt securities	-	-	-	396	401	385
Equity shares	-	-	-	1,958	2,167	1,759
Total	2,020	2,229	1,812	2,412	2,626	2,202

	Held at fair value through profit or loss			Investment securities		
	Net exposure	Favourable Changes	Unfavourable Changes	Net exposure	Favourable Changes	Unfavourable Changes
At 31 December 2011	\$million	\$million	\$million	\$million	\$million	\$million
Financial instruments held at fair value through profit or loss						
Debt securities	293	298	288	-	-	-
Equity shares	566	623	509	-	-	-
Derivative financial instruments	92	115	69	-	-	-
Debt securities	(172)	(172)	(172)	-	-	-
Investment securities						
Treasury bills	-	-	-	49	49	48
Debt securities	-	-	-	745	774	716
Equity shares	-	-	-	1,418	1,557	1,279
Total	779	864	694	2,212	2,380	2,043

Standard Chartered Bank

Notes to the financial statements continued

15. Financial instruments continued

Sensitivities in respect of the fair values of level 3 assets and liabilities continued

Company

	Held at fair value through profit or loss			Investment securities		
	Net exposure	Favourable Changes	Unfavourable Changes	Net exposure	Favourable Changes	Unfavourable Changes
	\$million	\$million	\$million	\$million	\$million	\$million
At 31 December 2012						
Financial instruments held at fair value through profit or loss						
Debt securities	172	176	168	-	-	-
Equity shares	-	-	-	-	-	-
Derivative financial instruments	14	-	28	-	-	-
Debt securities in issue	(114)	(114)	(114)	-	-	-
Loan and advances	910	924	896	-	-	-
Investment securities						
Debt securities	-	-	-	355	363	348
Equity shares	-	-	-	77	85	69
Total	982	986	978	432	448	417

	Held at fair value through profit or loss			Investment securities		
	Net exposure	Favourable Changes	Unfavourable Changes	Net exposure	Favourable Changes	Unfavourable Changes
	\$million	\$million	\$million	\$million	\$million	\$million
At 31 December 2011						
Financial instruments held at fair value through profit or loss						
Debt securities	241	246	236	-	-	-
Equity shares	1	1	1	-	-	-
Derivative financial instruments	92	100	84	-	-	-
Debt securities in issue	(172)	(172)	(172)	-	-	-
Investment securities						
Debt securities	-	-	-	509	524	495
Equity shares	-	-	-	66	83	49
Total	162	175	149	575	607	544

Where the fair value of financial instruments are measured using valuation techniques that incorporate one or more significant inputs which are based on unobservable market data, we apply a 10 per cent increase or decrease on the values of these unobservable parameter inputs, to generate a range of reasonably possible alternative valuations in accordance with the requirements of IFRS7. The percentage shift is determined by statistical analyses performed on a set of reference prices, which included certain equity indices, credit indices and volatility indices, based on the composition of our Level 3 assets. Favourable and unfavourable changes are determined on the basis of changes in the value of the instrument as a result of varying the levels of the unobservable parameters. This Level 3 sensitivity analysis assumes a one way market move and does not consider offsets for hedges.

As of 31 December 2012, these reasonably possible alternatives could have increased fair values of financial instruments held at fair value through profit or loss by \$ 209 million (2011: \$ 85 million) and available-for-sale by \$ 212 million (2011: \$ 168 million), or decreased fair values of financial instruments held at fair value through profit or loss by \$ 208 million (2011: \$ 85 million) and available-for-sale by \$ 212 million (2011: \$ 169 million). For the Company, these reasonably possible alternatives could have increased fair values of financial instruments held at fair value through profit or loss by \$ 4 million (2011: \$ 13 million) and available-for-sale by \$ 16 million (2011: \$ 32 million), or decreased fair values of financial instruments held at fair value through profit or loss by \$ 4 million (2011: \$ 13 million) and available-for-sale by \$ 15 million (2011: \$ 31 million).

Standard Chartered Bank

Notes to the financial statements continued

15. Financial instruments continued

Instruments carried at amortised cost

The following table summarises the carrying amounts and incorporates the Group's estimate of fair values of those financial assets and liabilities not presented on the Group's balance sheet at fair value. The fair values in the table below may be different from the actual amount that will be received/paid on the settlement or maturity of the financial instrument. For certain instruments, the fair value may be determined using assumptions for which no observable prices are available.

Group

	2012		2011	
	Carrying value	Fair value	Carrying value	Fair value
	\$million	\$million	\$million	\$million
Assets				
Cash and balances at central banks	61,043	61,043	47,364	47,364
Loans and advances to banks	68,380	68,344	65,980	65,963
Loans and advances to customers ¹	283,885	282,919	266,790	264,529
Investment securities	3,851	3,803	5,493	5,205
Other assets	21,659	21,659	20,554	20,554
Liabilities				
Deposits by banks	36,477	36,011	35,296	35,259
Customer accounts ¹	377,639	376,467	345,726	342,544
Debt securities in issue	41,445	40,906	35,766	36,142
Subordinated liabilities and other borrowed funds	23,084	24,048	19,462	19,321
Other liabilities	19,739	19,739	19,169	19,169

Company

	2012		2011	
	Carrying value	Fair value	Carrying value	Fair value
	\$million	\$million	\$million	\$million
Assets				
Cash and balances at central banks	49,655	49,655	36,268	36,268
Loans and advances to banks	37,250	37,239	36,972	36,980
Loans and advances to customers ¹	137,982	137,650	123,273	122,540
Investment securities	2,271	2,226	3,840	3,498
Other assets	12,715	12,715	11,411	11,411
Liabilities				
Deposits by banks	28,375	28,377	27,933	27,891
Customer accounts ¹	169,882	170,033	150,772	149,164
Debt securities in issue	31,959	31,882	24,923	24,833
Subordinated liabilities and other borrowed funds	20,107	20,938	16,288	16,108
Other liabilities	9,318	9,318	8,361	8,361

¹ Amounts have been restated as explained in note 46.

Standard Chartered Bank

Notes to the financial statements continued

15. Financial instruments continued

Instruments carried at amortised cost continued

The following sets out the Group's basis of establishing fair values of the financial instruments shown above.

Cash and balances at central banks

The fair value of cash and balances at central banks is their carrying amounts.

Loans and advances to banks and customers

For loans and advances to banks, the fair value of floating rate placements and overnight deposits is their carrying amounts. The estimated fair value of fixed interest bearing deposits is based on discounted cash flows using the prevailing money market rates for debts with a similar credit risk and remaining maturity.

The Group's loans and advances to customers portfolio is well diversified by geography and industry. Approximately one-third of the portfolio reprices within one month, and approximately half reprices within 12 months. Loans and advances are presented net of provisions for impairment. The fair value of loans and advances to customers with a residual maturity of less than one year generally approximates the carrying value, subject to significant movement in credit spreads. The estimated fair value of loans and advances with a residual maturity of more than one year represents the discounted amount of future cash flows expected to be received, including assumptions relating to prepayment rates and, where appropriate, credit spreads. Expected cash flows are discounted at current market rates to determine fair value. The Group has a wide range of individual instruments within its loans and advances portfolio and as a result providing quantification of the key assumptions used to value such instruments is impractical, with no one assumption being material.

Investment securities

For investment securities that do not have directly observable market values, the Group utilises a number of valuation techniques to determine fair value. Where available, securities are valued using inputs proxied from the same or closely related underlying (for example, bond spreads from the same or closely related issuer) or inputs proxied from a different underlying (for example, a similar bond but using spreads for a particular sector and rating). Certain instruments cannot be proxied as set out above, and in such cases the positions are valued using non-market observable inputs. This includes those instruments held at amortised cost and predominantly relate to asset backed securities. The fair value for such instruments is usually proxied from internal assessments of the underlying cash flows. The Group has a wide range of individual investments within the unlisted debt securities portfolio. Given the number of instruments involved, providing quantification of the key assumptions used to value such instruments is impractical, with no one assumption being material.

Deposits and borrowings

The estimated fair value of deposits with no stated maturity is the amount repayable on demand. The estimated fair value of fixed interest bearing deposits and other borrowings without quoted market prices is based on discounting cash flows using the prevailing market rates for debts with a similar credit risk and remaining maturity.

Debt securities in issue, subordinated liabilities and other borrowed funds

The aggregate fair values are calculated based on quoted market prices. For those notes where quoted market prices are not available, a discounted cash flow model is used based on a current market related yield curve appropriate for the remaining term to maturity.

Standard Chartered Bank

Notes to the financial statements continued

15. Financial instruments continued

Reclassification of financial assets

In 2008 the Group and Company reclassified certain non-derivative financial assets classified as held for trading into the available-for-sale ("AFS") category as these were no longer considered to be held for the purpose of selling or repurchasing in the near term. At the time of transfer, the Group identified the rare circumstances permitting such a transfer as the impact of the credit crisis in financial markets, particularly from the beginning of 2008, which significantly impacted the liquidity in certain markets. The Group also reclassified certain eligible financial assets from trading and available-for-sale categories to loans and receivables where the Group had the intent and ability to hold the reclassified assets for the foreseeable future or until maturity. There have been no reclassifications since 2008.

The following tables provide details of the remaining balance of assets reclassified during 2008:

Group

	Carrying amount at 31 December 2012	Fair value at 31 December 2012	If assets had not been reclassified, fair value gains from 1 January to 31 December 2012 which would have been recognised within				
			Income	AFS reserve	Income recognised in income statement in 2011	Effective interest rate at date of reclassification	Estimated amounts of expected cash flows
For assets reclassified:	\$million	\$million	\$million	\$million	\$million	%	\$million
From trading to AFS	85	85	5 ¹	-	10	4.1	195
From trading to loans and receivables	550	532	34	-	28	5.0	609
From AFS to loans and receivables	673	661	-	45	26	5.3	826
	1,308	1,278	39	45	64		
Of which asset backed securities:							
reclassified to available-for-sale	81	81	5 ¹	-	8		
reclassified to loans and receivables	924	896	68	45	43		

¹ Post-reclassification, this is recognised within the available-for-sale reserve.

	Carrying amount at 31 December 2011	Fair value at 31 December 2011	If assets had not been reclassified, fair value gains/(losses) from 1 January to 31 December 2011 which would have been recognised within				
			Income	AFS reserve	Income recognised in income statement in 2010	Effective interest rate at date of reclassification	Estimated amounts of expected cash flows
For assets reclassified:	\$million	\$million	\$million	\$million	\$million	%	\$million
From trading to AFS	176	176	1 ¹	-	9	5.8	316
From trading to loans and receivables	816	711	(44)	-	27	5.6	961
From AFS to loans and receivables	856	796	-	1	27	5.5	1,118
	1,848	1,683	(43)	1	63		
Of which asset backed securities:							
reclassified to available-for-sale	114	114	(1) ¹	-	5		
reclassified to loans and receivables	1,304	1,195	(11)	1	43		

¹ Post-reclassification, this is recognised within the available-for-sale reserve.

Standard Chartered Bank

Notes to the financial statements continued

15. Financial instruments continued

Reclassification of financial assets continued

Company

	Carrying amount at 31 December 2012	Fair value at 31 December 2012	If assets had not been reclassified, fair value gains from 1 January to 31 December 2012 which would have been recognised within		Income recognised in income statement in 2012	Effective interest rate at date of reclassification	Estimated amounts of expected cash flows
			Income	AFS reserve			
For assets reclassified:	\$million	\$million	\$million	\$million	\$million	%	\$million
From trading to AFS	83	83	5	-	10	6.0	195
From trading to loans and receivables	548	529	34		28	5.0	609
From AFS to loans and receivables	673	661		45	26	5.3	826
	1,304	1,273	39	45	64		
Of which asset backed securities:							
reclassified to available-for-sale	81	81	5	-	8		
reclassified to loans and receivables	924	896	68	45	43		

	Carrying amount at 31 December 2011	Fair value at 31 December 2011	If assets had not been reclassified, fair value gains/(losses) from 1 January to 31 December 2011 which would have been recognised within		Income recognised in income statement in 2011	Effective interest rate at date of reclassification	Estimated amounts of expected cash flows
			Income	AFS reserve			
For assets reclassified:	\$million	\$million	\$million	\$million	\$million	%	\$million
From trading to AFS	174	174	- ¹	-	7	5.7	312
From trading to loans and receivables	617	528	(41)	-	20	5.5	689
From AFS to loans and receivables	471	449	-	1	18	5.6	601
	1,262	1,151	(41)	1	45		
Of which asset backed securities:							
reclassified to available-for-sale	114	114	-	-	5		
reclassified to loans and receivables	723	667	(11)	1	26		

¹ Post-reclassification, this is recognised within the available-for-sale reserve.

Standard Chartered Bank

Notes to the financial statements continued

15. Financial instruments continued

Transfers of financial assets

Transfers where financial assets are not derecognised - Group

Repurchase transactions

The Group enters into collateralised repurchase agreements (repos) and securities borrowing and lending transactions. These transactions typically entitle the Group and its counterparties to have recourse to assets similar to those provided as collateral in the event of a default. Securities sold subject to repos continue to be recognised on the balance sheet as the Group retains substantially the associated risk and rewards of these securities. The counterparty liability is included in deposits by banks or customer accounts, as appropriate.

The table below sets out the financial assets provided by the Group as collateral for repurchase transactions:

	Fair value through profit and loss	Available for sale	Loans and receivables	Total
	\$million	\$million	\$million	\$million
Collateral pledged against repurchase agreements				
On balance sheet				
Treasury bills and other eligible bills	62	424	-	486
Debt securities	522	590	-	1,112
Loan and advances to banks and customer	-	-	1,780	1,780
Off balance sheet				
Repledged collateral received	97	-	1,281	1,378
At 31 December 2012	681	1,014	3,061	4,756

Balance sheet liabilities - Repurchase agreements

Banks	1,338
Customers	1,917
At 31 December 2012	3,255

	Fair value through profit and loss	Available for sale	Loans and receivables	Total
	\$million	\$million	\$million	\$million
Collateral pledged against repurchase agreements				
On balance sheet				
Treasury bills and other eligible bills	234	490	-	724
Debt securities	933	1,107	15	2,055
Loan and advances to banks and customer	-	-	15	15
Off balance sheet				
Repledged collateral received	104	-	901	1,005
At 31 December 2011	1,271	1,597	931	3,799

Balance sheet liabilities - Repurchase agreements

Banks	1,913
Customers	1,850
At 31 December 2011	3,763

Standard Chartered Bank

Notes to the financial statements continued

15. Financial instruments continued

Repurchase and reverse repurchase agreements

The Group also undertakes reverse repurchase transactions as set out in the table below:

Balance sheet assets - Reverse repurchase agreements

	2012 \$million	2011 \$million
Banks	7,759	5,706
Customers	2,900	1,890
	10,659	7,596

Under reverse repurchase and securities borrowing arrangements, the Group obtains securities on terms which permit it to repledge or resell the securities to others. Amounts on such terms are:

	2012 \$million	2011 \$million
Securities and collateral which can be repledged or sold (at fair value)	10,517	7,076
Thereof repledged/transferred to others for financing activities, to satisfy commitments under short sale transactions or liabilities under sale and repurchase agreements (at fair value)	1,378	1,005

Securitisation transactions

The Group has also entered into a number of securitisation transactions where the underlying loans and advances have been transferred to special purpose entities (SPEs) that are fully consolidated by the Group. As a result, the Group continues to recognise the assets on its balance sheet, together with the associated liability instruments issued by the special purpose entities. The holders of the liability instruments have recourse only to the assets transferred to the SPE. Further details of SPE are in note 43.

The following table sets out the carrying value and fair value of the assets transferred and the carrying value and fair value of the associated liabilities at 31 December 2012 and 2011 respectively.

	2012		2011	
	Carrying value \$million	Fair value \$million	Carrying value \$million	Fair value \$million
Loan and advances	1,321	1,319	2,212	2,011
Securitisation liability	1,093	1,093	1,843	1,843
Net	228	226	369	168

The Group did not undertake any transactions that required the recognition of an asset representing continuing involvement in financial assets.

Standard Chartered Bank

Notes to the financial statements continued

15. Financial instruments continued

Transfers where financial assets are not derecognised - Company

Repurchase transactions

The Company enters into collateralised repurchase agreements (repos) and securities borrowing and lending transactions. These transactions typically entitle the Company and its counterparties to have recourse to assets similar to those provided as collateral in the event of a default. Securities sold subject to repos continue to be recognised on the balance sheet as the Group retains substantially the associated risk and rewards of these securities. The counterparty liability is included in deposits by banks or customer accounts, as appropriate.

The table below sets out the financial assets provided by the Group as collateral for repurchase transactions:

	Fair value through profit and loss	Available for sale	Loans and receivables	Total
	\$million	\$million	\$million	\$million
Collateral pledged against repurchase agreements				
On balance sheet				
Treasury bills and other eligible bills	62	363	-	425
Debt securities	522	-	-	522
Loan and advances to banks and customer	-	-	1,780	1,780
Off balance sheet				
Repledged collateral received	97	-	1,049	1,146
At 31 December 2012	681	363	2,829	3,873

Balance sheet liabilities - Repurchase agreements

Banks	510
Customers	1,891
At 31 December 2012	2,401

	Fair value through profit and loss	Available for sale	Loans and receivables	Total
	\$million	\$million	\$million	\$million
Collateral pledged against repurchase agreements				
On balance sheet				
Treasury bills and other eligible bills	17	294	-	311
Debt securities	633	-	15	648
Loan and advances to banks and customer	-	-	15	15
Off balance sheet				
Repledged collateral received	104	-	901	1,005
At 31 December 2011	754	294	931	1,979

Balance sheet liabilities - Repurchase agreements

Banks	247
Customers	1,772
At 31 December 2011	2,019

Standard Chartered Bank

Notes to the financial statements continued

15. Financial instruments continued

Repurchase and reverse repurchase agreements

The Company also undertakes reverse repurchase transactions as set out in the table below:

Balance sheet assets - Reverse repurchase agreements

	2012	2011
	\$million	\$million
Banks	6,575	3,468
Customers	1,712	1,523
	8,287	4,991

Under reverse repurchase and securities borrowing arrangements, the Group obtains securities on terms which permit it to repledge or resell the securities to others. Amounts on such terms are:

	2012	2011
	\$million	\$million
Securities and collateral which can be repledged or sold (at fair value)	7,963	4,602
Thereof repledged/transferred to others for financing activities, to satisfy commitments under short sale transactions or liabilities under sale and repurchase agreements (at fair value)	1,146	1,005

Securitisation transactions

The Company has also entered into a number of securitisation transactions where the underlying loans and advances have been transferred to special purpose entities (SPEs) that are fully consolidated by the Company. As a result, the Company continues to recognise the assets on its balance sheet, together with the associated liability instruments issued by the special purpose entities. The holders of the liability instruments have recourse only to the assets transferred to the SPE.

The following table sets out the carrying value and fair value of the assets transferred and the carrying value and fair value of the associated liabilities at 31 December 2012 and 2011 respectively.

	2012		2011	
	Carrying value	Fair value	Carrying value	Fair value
	\$million	\$million	\$million	\$million
Loan and advances	54	54	69	69
Securitisation liability	52	52	68	68
Net	2	2	1	1

The Company did not undertake any transactions that required the recognition of an asset representing continuing involvement in financial assets.

Standard Chartered Bank

Notes to the financial statements continued

16. Financial instruments held at fair value through profit or loss

Loans and advances held at fair value through profit and loss

The maximum exposure to credit risk for loans designated at fair value through profit or loss was \$282 million (2011: \$ 417 million) for the Group and \$ 168 million (2011: \$ 231 million) for the Company.

The net fair value gain on loans and advances to customers designated at fair value through profit or loss was \$0.2million (2011: gain of \$2.3million). Of this, \$nil million (2011: \$nil million) relates to changes in credit risk. The cumulative fair value movement relating to changes in credit risk was \$3 million (2011: \$ 3 million).

The changes in fair value attributable to credit risk has been determined by comparing fair value movements in risk-free bonds with similar maturities to the changes in fair value of loans designated at fair value through profit or loss.

Debt securities, equity shares and treasury bills held at fair value through profit or loss

Group

	2012			Total \$million
	Debt securities \$million	Equity shares \$million	Treasury bills \$million	
Issued by public bodies:				
Government securities	10,182			
Other public sector securities	131			
	10,313			
Issued by banks:				
Certificates of deposit	255			
Other debt securities	1,723			
	1,978			
Issued by corporate entities and other issuers:				
Other debt securities	2,932			
Total debt securities	15,223			
Of which:				
Listed on a recognised UK exchange	467	23	-	490
Listed elsewhere	9,086	2,081	949	12,116
Unlisted	5,670	1,050	2,006	8,726
	15,223	3,154	2,955	21,332
Market value of listed securities	9,553	2,104	949	12,606

	2011			Total \$million
	Debt securities \$million	Equity shares \$million	Treasury bills \$million	
Issued by public bodies:				
Government securities	7,766			
Other public sector securities	65			
	7,831			
Issued by banks:				
Certificates of deposit	488			
Other debt securities	1,564			
	2,052			
Issued by corporate entities and other issuers:				
Other debt securities	3,187			
Total debt securities	13,070			
Of which:				
Listed on a recognised UK exchange	517	26	-	543
Listed elsewhere	7,269	1,002	799	9,070
Unlisted	5,284	565	3,810	9,659
	13,070	1,593	4,609	19,272
Market value of listed securities	7,786	1,028	799	9,613

Standard Chartered Bank

Notes to the financial statements continued

16. Financial instruments held at fair value through profit or loss continued

Financial assets held at fair value through profit or loss continued

Company

	2012			
	Debt Securities \$million	Equity Shares \$million	Treasury bills \$million	Total \$million
Issued by public bodies:				
Government securities	5,553			
Other public sector securities	77			
	5,630			
Issued by banks:				
Certificates of deposit	115			
Other debt securities	1,511			
	1,626			
Issued by corporate entities and other issuers:				
Other debt securities	1,669			
Total debt securities	8,925			
Of which:				
Listed on a recognised UK exchange	256	23	-	279
Listed elsewhere	4,305	1,744	427	6,476
Unlisted	4,364	-	294	4,658
	8,925	1,767	721	11,413
Market value of listed securities	4,561	1,768	428	6,757

	2011			
	Debt Securities \$million	Equity Shares \$million	Treasury bills \$million	Total \$million
Issued by public bodies:				
Government securities	3,239			
Other public sector securities	6			
	3,245			
Issued by banks:				
Certificates of deposit	215			
Other debt securities	1,213			
	1,428			
Issued by corporate entities and other issuers:				
Other debt securities	1,803			
Total debt securities	6,476			
Of which:				
Listed on a recognised UK exchange	307	26	-	333
Listed elsewhere	2,632	846	225	3,703
Unlisted	3,537	-	669	4,206
	6,476	872	894	8,242
Market value of listed securities	2,939	872	226	4,037

The net fair value loss on liabilities designated at fair value through profit or loss was \$256 million for the year (2011: net loss of \$438 million). Of this, a loss of \$nil million (2011: \$nil million) relates to changes in credit risk. The cumulative fair value movement relating to changes in credit risk was a loss of \$10.4 million (2011: \$10 million). The change in fair value attributable to credit risk was determined by comparing fair value movements in risk-free debt instruments with similar maturities, to the changes in fair value of liabilities designated at fair value through profit or loss.

As at 31 December 2012, the amount the Group is contractually obliged to pay at maturity to the holders of these obligations was \$31 million higher (2011: \$61 million lower) than the carrying amount at fair value.

As at 31 December 2012, the amount the Company is contractually obliged to pay at maturity to the holders of these obligations was \$12 million higher (2011: \$56 million) than the carrying amount at fair value.

Standard Chartered Bank

Notes to the financial statements continued

17. Derivative financial instruments

The tables below analyse the notional principal amounts and the positive and negative fair values of the Group's and Company's derivative financial instruments. Notional principal amounts are the amount of principal underlying the contract at the reporting date.

Group

	2012			2011		
	Notional principal amounts \$million	Assets \$million	Liabilities \$million	Notional principal amounts \$million	Assets ¹ \$million	Liabilities ¹ \$million
Total derivatives						
Foreign exchange derivative contracts:						
Forward foreign exchange contracts	1,220,949	11,636	12,697	1,135,255	17,455	17,122
Currency swaps and options	862,722	13,932	13,033	1,098,433	15,406	16,180
Exchange traded futures and options	8,772	-	-	363	-	-
	2,092,443	25,568	25,730	2,234,051	32,861	33,302
Interest rate derivative contracts:						
Swaps	1,471,278	19,107	18,682	2,009,872	17,182	15,405
Forward rate agreements and options	145,020	1,266	796	242,843	1,086	1,093
Exchange traded futures and options	306,054	-	-	273,089	343	347
	1,922,352	20,373	19,478	2,525,804	18,611	16,845
Credit derivative contracts	61,186	830	1,130	77,776	1,783	1,807
Equity and stock index options	12,223	355	372	12,057	678	845
Commodity derivative contracts	138,642	2,370	1,484	62,426	4,634	4,319
Total derivatives	4,226,846	49,496	48,194	4,912,114	58,567	57,118

¹ Amounts have been restated as explained in note 46.

Company

	2012			2011		
	Notional principal amounts \$million	Assets \$million	Liabilities \$million	Notional principal amounts \$million	Assets ¹ \$million	Liabilities ¹ \$million
Total derivatives						
Foreign exchange derivative contracts:						
Forward foreign exchange contracts	1,303,259	11,934	13,514	1,096,795	17,152	17,125
Currency swaps and options	788,787	12,271	11,034	1,045,017	16,472	17,283
Exchange traded futures and options	8,329	-	-	-	-	-
	2,100,375	24,205	24,548	2,141,812	33,624	34,408
Interest rate derivative contracts:						
Swaps	1,324,557	18,612	17,827	1,840,537	14,396	12,602
Forward rate agreements and options	137,459	1,153	669	229,506	973	967
Exchange traded futures and options	300,888	-	-	267,316	343	347
	1,762,904	19,765	18,496	2,337,359	15,712	13,916
Credit derivative contracts	59,440	799	1,104	81,340	1,904	1,928
Equity and stock index options	13,607	353	369	12,799	749	837
Commodity derivative contracts	138,893	2,321	1,480	64,745	4,940	4,614
Total derivatives	4,075,219	47,443	45,997	4,638,055	56,929	55,703

¹ Amounts have been restated as explained in note 46.

The Group and Company limits exposure to credit losses in the event of default by entering into master netting agreements with certain market counterparties. As required by IAS 32, exposures are only presented net in these accounts where they are subject to legal right of offset and intended to be settled net in the ordinary course of business. Details of the amounts available for offset can be found in the Risk review on page 23.

The Derivatives and Hedging sections of the Risk review on pages 71 explain the Group's risk management of derivative contracts and application of hedging.

Standard Chartered Bank

Notes to the financial statements continued

17. Derivative financial instruments continued

Derivatives held for hedging

Hedge accounting is applied to derivatives and hedged items when the criteria under IAS 39 have been met (see note 1 on page 98). The tables below list the types of derivatives that the Group and Company hold for hedge accounting.

Group

	2012			2011		
	Notional principal amounts	Assets	Liabilities	Notional principal amounts	Assets	Liabilities
	\$million	\$million	\$million	\$million	\$million	\$million
Derivatives designated as fair value hedges:						
Interest rate swaps	34,659	1,234	636	34,820	1,206	717
Currency swaps	2,910	18	5	3,768	60	221
Forward foreign exchange contracts	427	-	9	843	67	-
	37,996	1,252	650	39,431	1,333	938
Derivatives designated as cash flow hedges:						
Interest rate swaps	17,033	33	17	23,537	40	21
Forward foreign exchange contracts	2,066	52	1	2,999	2	72
Currency swaps	8,955	23	13	3,609	30	2
	28,054	108	31	30,145	72	95
Derivatives designated as net investment hedges:						
Forward foreign exchange contracts	671	-	52	707	34	-
Total derivatives held for hedging	66,721	1,360	733	70,283	1,439	1,033

Company

	2012			2011		
	Notional principal amounts	Assets	Liabilities	Notional principal amounts	Assets	Liabilities
	\$million	\$million	\$million	\$million	\$million	\$million
Derivatives designated as fair value hedges:						
Interest rate swaps	24,850	1,214	606	24,715	1,175	568
Currency swaps	1,705	18	3	2,583	30	137
Forward foreign exchange contracts	427	-	9	843	67	-
	26,982	1,232	618	28,141	1,272	705
Derivatives designated as cash flow hedges:						
Interest rate swaps	8,355	19	6	9,007	21	8
Forward foreign exchange contracts	2,066	52	1	2,999	2	72
Currency swaps	3,475	19	5	2,041	21	1
	13,896	90	12	14,047	44	81
Derivatives designated as net investment hedges:						
Forward foreign exchange contracts	671	-	52	-	-	-
Total derivatives held for hedging	41,549	1,322	682	42,188	1,316	786

Standard Chartered Bank

Notes to the financial statements continued

17. Derivative financial instruments continued

Fair value hedges

The swaps exchange fixed rates for floating rates on funding to match floating rates received on assets, or exchange fixed rates on assets to match the floating rates paid on funding.

For qualifying hedges, the fair value changes of the derivative are substantially matched by corresponding fair value changes of the hedged item, both of which are recognised in profit and loss. In respect of fair value hedges, net gains arising on the hedging instruments during the year were \$156 million (2011: \$460 million) compared to net losses arising on the hedged items of \$163 million (2011: \$435 million). For the Company, net gains arising on fair value hedging instruments were \$77 million (2011: \$456 million) compared to net losses arising on the hedged items of \$102 million (2011: \$404 million).

Cash flow hedges

The Group uses interest rate swaps to manage the variability in future cash flows on assets and liabilities that have floating rates of interest by exchanging the floating rates for fixed rates. It also uses foreign exchange contracts, currency swaps and options to manage the variability in future exchange rates on its assets and liabilities and costs in foreign currencies.

Gains and losses arising on the effective portion of the hedges are deferred in equity until the variability on the cash flow affects profit and loss, at which time the gains or losses are transferred to profit and loss. During the year, \$nil million (2011: \$nil million) was recognised by the Group in the income statement in respect of ineffectiveness arising on cash flow hedges. During the year, net gains of \$21 million (2011: \$94 million) for the Group were reclassified to profit and loss from the cash flow hedge reserve, of which, gains of \$17 million (2011: \$96 million) were recognised within operating costs and losses of \$2 million (2011: \$2 million) recognised within net interest income.

During the year, net gains of \$20 million (2011: \$97 million) for the Company were reclassified to profit and loss from the cash flow hedge reserve, of which, gains of \$16 million (2011: \$95 million) were recognised within operating costs and gains of \$4 million (2011: \$2 million) recognised within net interest income.

The Group has hedged the following cash flows which are expected to impact the income statement in the following periods:

	2012						Total
	Less than one year	One to two years	Two to three years	Three to four years	Four to five years	Over five years	
	\$million	\$million	\$million	\$million	\$million	\$million	\$million
Forecast receivable cash flows	3,533	292	174	2	-	-	4,001
Forecast payable cash flows	(5,229)	(577)	(177)	(3)	(2)	-	(5,988)
	(1,696)	(285)	(3)	(1)	(2)	-	(1,987)

	2011						Total
	Less than one year	One to two years	Two to three years	Three to four years	Four to five years	Over five years	
	\$million	\$million	\$million	\$million	\$million	\$million	\$million
Forecast receivable cash flows	1,059	432	153	81	1	-	1,726
Forecast payable cash flows	(2,686)	(1,781)	(143)	(80)	(1)	-	(4,691)
	(1,627)	(1,349)	10	1	-	-	(2,965)

The Company has hedged the following cash flows which are expected to impact the income statement in the following periods:

	2012						Total
	Less than one year	One to two years	Two to three years	Three to four years	Four to five years	Over five years	
	\$million	\$million	\$million	\$million	\$million	\$million	\$million
Forecast receivable cash flows	26	16	86	-	-	-	128
Forecast payable cash flows	(1,655)	(296)	(88)	-	-	-	(2,039)
	(1,629)	(280)	(2)	-	-	-	(1,911)

	2011						Total
	Less than one year	One to two years	Two to three years	Three to four years	Four to five years	Over five years	
	\$million	\$million	\$million	\$million	\$million	\$million	\$million
Forecast receivable cash flows	38	20	6	79	-	-	143
Forecast payable cash flows	(1,720)	(1,389)	(6)	(79)	-	-	(3,194)
	(1,682)	(1,369)	-	-	-	-	(3,051)

Net investment hedges

The Group uses a combination of foreign exchange contracts and non-derivative financial assets to manage the variability in future exchange rates on its net investments in foreign currencies. Gains and losses arising on the effective portion of the hedges are deferred in equity until the net investment is disposed off. During the year, \$nil million (2011: \$nil million) was recognised in the Income statement in respect of ineffectiveness arising on net investment hedges.

Standard Chartered Bank

Notes to the financial statements continued

18. Loans and advances to banks

	Group		Company	
	2012	2011	2012	2011
	\$million	\$million	\$million	\$million
Loans and advances to banks	69,259	66,632	38,049	37,543
Individual impairment provisions	(103)	(82)	(24)	(4)
Portfolio impairment provision	(2)	(2)	(1)	(1)
	69,154	66,548	38,024	37,538
Of which: loans and advances held at fair value through profit or loss (note 15)	(774)	(568)	(774)	(566)
	68,380	65,980	37,250	36,972

Analysis of loans and advances to banks by geography are set out in the Risk review section on pages 24 to 25.

19. Loans and advances to customers

	Group		Company	
	2012	2011 ¹	2012	2011 ¹
	\$million	\$million	\$million	\$million
Loans and advances to customers	291,975	274,428	144,429	129,411
Individual impairment provisions	(2,368)	(1,890)	(1,301)	(1,013)
Portfolio impairment provision	(744)	(760)	(306)	(347)
	288,863	271,778	142,822	128,051
Of which: loans and advances held at fair value through profit or loss (note 15)	(4,978)	(4,988)	(4,840)	(4,778)
	283,885	266,790	137,982	123,273

¹ Amounts have been restated as explained in note 46.

Analysis of loans and advances to customer by geography and business and related impairment provisions are set out within the Risk review on pages 24 to 56.

Standard Chartered Bank

Notes to the financial statements continued

20. Assets leased to customers

Finance leases and installment credit

	Group		Company	
	2012	2011	2012	2011
	\$million	\$million	\$million	\$million
Finance leases	576	526	178	168
Installment credit agreements	2,248	1,949	2,097	1,949
	2,824	2,475	2,275	2,117

The above assets are included within loans and advances to customers. The cost of assets acquired during the year for leasing to customers under finance leases and instalment credit agreements amounted to \$841 million (2011: \$275 million) for the Group and \$766 million (2011: \$134 million) for the Company. The cost of assets excludes amounts relating acquisition during the year.

	Group		Company	
	2012	2011	2012	2011
	\$million	\$million	\$million	\$million
Minimum lease receivables under finance leases falling due:				
Within one year	116	91	66	52
Later than one year and less than five years	370	391	88	107
After five years	188	141	65	51
	674	623	219	210
Interest income relating to future periods	(98)	(97)	(41)	(42)
Present value of finance lease receivables	576	526	178	168
Of which:				
Falls due within one year	98	73	58	45
Falls due later than one year and less than five years	332	344	73	86
Falls due after five years	146	109	47	37

Operating lease assets

Assets leased to customers under operating leases consist of commercial aircraft and ships which are included within property, plant and equipment in note 26. At 31 December 2012, these assets had a net book value of \$4,422 million (2011: \$2,782 million) in the Group.

	Group	
	2012	2011
	\$million	\$million
Minimum lease receivables under operating leases falling due:		
Within one year	480	318
Later than one year and less than five years	1,201	1,177
After five years	1,523	768
	3,204	2,263

Standard Chartered Bank

Notes to the financial statements continued

21. Investment securities

Group

	2012					
	Debt securities			Equity shares	Treasury bills	Total
	Held-to-maturity	Available-for-sale	Loans and receivables			
\$million	\$million	\$million	\$million	\$million	\$million	
Issued by public bodies:						
Government securities	-	23,116	390			
Other public sector securities	-	1,229	-			
	-	24,345	390			
Issued by banks:						
Certificates of deposit	-	5,974	-			
Other debt securities	-	24,195	114			
	-	30,169	114			
Issued by corporate entities and other issuers:						
Other debt securities	-	10,899	3,347			
Total debt securities	-	65,413	3,851			
Of which:						
Listed on a recognised UK exchange	-	6,858	173 ¹	70	-	7,101
Listed elsewhere	-	22,816	878 ¹	1,104	13,039	37,837
Unlisted	-	35,739	2,800	2,104	13,832	54,475
	-	65,413	3,851	3,278	26,871	99,413
Market value of listed securities	-	29,674	1,006	1,174	13,039	44,893

	2011					
	Debt securities			Equity shares	Treasury bills	Total
	Held-to-maturity	Available-for-sale	Loans and receivables			
\$million	\$million	\$million	\$million	\$million	\$million	
Issued by public bodies:						
Government securities	18	20,462	389			
Other public sector securities	-	690	-			
	18	21,152	389			
Issued by banks:						
Certificates of deposit	-	5,811	-			
Other debt securities	-	18,292	1,043			
	-	24,103	1,043			
Issued by corporate entities and other issuers:						
Other debt securities	-	10,312	4,043			
Total debt securities	18	55,567	5,475			
Of which:						
Listed on a recognised UK exchange	-	5,431	242 ¹	150	-	5,823
Listed elsewhere	18	17,082	820 ¹	869	7,516	26,305
Unlisted	-	33,054	4,413	1,524	14,164	53,155
	18	55,567	5,475	2,543	21,680	85,283
Market value of listed securities	18	22,513	954	1,019	7,516	32,020

¹ These debt securities listed or registered on a recognised UK exchange or elsewhere, are thinly traded or the market for these securities is illiquid.

Equity shares largely comprise investment in corporates.

Standard Chartered Bank

Notes to the financial statements continued

21. Investment securities continued

Company

	2012				
	Debt securities		Equity shares \$million	Treasury bills \$million	Total \$million
	Available-for-sale \$million	Loans and receivables \$million			
Issued by public bodies:					
Government securities	8,238	390			
Other public sector securities	43	-			
	8,281	390			
Issued by banks:					
Certificates of deposit	1,713	-			
Other debt securities	13,370	562			
	15,083	562			
Issued by corporate entities and other issuers:					
Other debt securities	8,418	1,319			
Total debt securities	31,782	2,271			
Of which:					
Listed on a recognised UK exchange	5,274	26 ¹	38	-	5,338
Listed elsewhere	11,087	933 ¹	638	4,075	16,733
Unlisted	15,421	1,312	81	4,730	21,544
	31,782	2,271	757	8,805	43,615
Market value of listed securities	16,361	914	676	4,075	22,026

	2011				
	Debt securities		Equity shares \$million	Treasury bills \$million	Total \$million
	Available-for-sale \$million	Loans and receivables \$million			
Issued by public bodies:					
Government securities	7,903	389			
Other public sector securities	152	-			
	8,055	389			
Issued by banks:					
Certificates of deposit	2,062	-			
Other debt securities	8,905	1,122			
	10,967	1,122			
Issued by corporate entities and other issuers:					
Other debt securities	8,073	2,329			
Total debt securities	27,095	3,840			
Of which:					
Listed on a recognised UK exchange	4,041	67 ¹	75	-	4,183
Listed elsewhere	9,746	887 ¹	548	432	11,613
Unlisted	13,308	2,886	50	6,376	22,620
	27,095	3,840	673	6,808	38,416
Market value of listed securities	13,787	850	623	432	15,692

¹ These debt securities listed or registered on a recognised UK exchange or elsewhere, are thinly traded or the market for these securities is illiquid.

Equity shares largely comprise investment in corporates.

Standard Chartered Bank

Notes to the financial statements continued

21. Investment securities continued

The change in the carrying amount of investment securities comprised:

Group

	2012				2011			
	Debt securities \$million	Equity shares \$million	Treasury bills \$million	Total \$million	Debt securities \$million	Equity shares \$million	Treasury bills \$million	Total \$million
At 1 January	61,060	2,543	21,680	85,283	55,384	2,517	17,895	75,796
Exchange translation differences	675	13	615	1,303	(960)	5	(848)	(1,803)
Additions	111,438	783	45,104	157,325	79,385	982	50,893	131,260
Maturities and disposals	(104,700)	(217)	(40,988)	(145,905)	(72,668)	(672)	(46,491)	(119,831)
Impairment, net of recoveries on disposals	24	(108)	-	(84)	(84)	(12)	-	(96)
Changes in fair value (including the effect of fair value hedging)	728	264	57	1,049	99	(277)	(38)	(216)
Amortisation of discounts and premiums	39	-	403	442	(96)	-	269	173
At 31 December	69,264	3,278	26,871	99,413	61,060	2,543	21,680	85,283

At 31 December 2012, unamortised premiums on debt securities held for investment purposes amounted to \$607 million (2011: \$387 million) and unamortised discounts amounted to \$443 million (2011: \$308 million).

Income from listed equity shares amounted to \$54 million (2011: \$36 million) and income from unlisted equity shares amounted to \$38 million (2011: \$37 million).

Company

	2012				2011			
	Debt securities \$million	Equity shares \$million	Treasury bills \$million	Total \$million	Debt securities \$million	Equity shares \$million	Treasury bills \$million	Total \$million
At 1 January	30,935	673	6,808	38,416	24,879	742	3,501	29,122
Exchange translation differences	7	2	91	100	(526)	(1)	(509)	(1,036)
Additions	27,248	29	12,729	40,006	30,137	69	14,915	45,121
Maturities and disposals	(24,635)	(35)	(11,044)	(35,714)	(23,818)	(37)	(11,288)	(35,143)
Impairment, net of recoveries on disposals	1	(6)	-	(5)	(15)	-	-	(15)
Changes in fair value (including the effect of fair value hedging)	495	94	4	593	227	(100)	1	128
Amortisation of discounts and premiums	2	-	217	219	51	-	188	239
At 31 December	34,053	757	8,805	43,615	30,935	673	6,808	38,416

At 31 December 2012, unamortised premiums on debt securities held for investment purposes amounted to \$423 million (2011: \$307 million) and unamortised discounts amounted to \$347 million (2011: \$179 million).

Income from listed equity shares amounted to \$42 million (2011: \$25 million) and income from unlisted equity shares amounted to \$1 million (2011: \$1 million).

Standard Chartered Bank

Notes to the financial statements continued

21. Investment securities continued

The following table sets out the movement in the allowance of impairment provisions for investment securities classified as loans and receivables.

	Group		Company	
	2012 \$million	2011 \$million	2012 \$million	2011 \$million
At 1 January	33	32	28	27
Exchange translation differences	-	(1)	-	(2)
Amounts written off	(2)	(23)	(2)	(3)
Impairment	(4)	25	(4)	6
At 31 December	27	33	22	28

22. Other assets

	Group		Company	
	2012 \$million	2011 \$million	2012 \$million	2011 \$million
Financial assets held at amortised cost (note 15)				
Hong Kong SAR Government certificates of indebtedness (note 31)	4,191	4,043	-	-
Cash collateral	5,068	4,856	5,055	4,843
Acceptances and Endorsements	5,156	5,485	2,506	2,303
Unsettled trades and other financial assets	7,244	6,170	5,154	4,265
	21,659	20,554	12,715	11,411
Non-financial assets				
Commodities	5,574	3,523	5,574	3,523
Other	1,512	3,072	490	1,124
	28,745	27,149	18,779	16,058

The Hong Kong SAR government certificates of indebtedness are subordinated to the claims of other parties in respect of bank notes issued.

Standard Chartered Bank

Notes to the financial statements continued

23. Investments in subsidiary undertakings, joint ventures and associates

Investment in subsidiary undertakings

	2012 \$million	2011 \$million
At 1 January	14,270	16,539
Additions	131	1,642
Disposals and liquidation	(830)	(3,911)
At 31 December	13,571	14,270

At 31 December 2012, the principal subsidiary undertakings, all indirectly held and principally engaged in the business of banking and provision of other financial services, were as follows:

Country and place of incorporation or registration	Main areas of operation	Group interest in ordinary share capital %
Standard Chartered Bank Korea Limited, Korea	Korea	100
Standard Chartered Bank Malaysia Berhad, Malaysia	Malaysia	100
Standard Chartered Bank (Pakistan) Limited, Pakistan	Pakistan	98.99
Standard Chartered Bank (Taiwan) Limited, Taiwan	Taiwan	100
Standard Chartered Bank (Hong Kong) Limited, Hong Kong	Hong Kong	51 ¹
Standard Chartered Bank (China) Limited, China	China	100
Standard Chartered Bank (Thai) Public Company Limited, Thailand	Thailand	99.99
Standard Chartered Bank Nigeria Limited, Nigeria	Nigeria	100
Standard Chartered Bank Kenya Limited, Kenya	Kenya	73.9
Standard Chartered Private Equity Limited, Hong Kong	Hong Kong	100

¹ 49 per cent is held by Standard Chartered Holdings Limited, the Group's parent company.

Standard Chartered Bank

Notes to the financial statements continued

23. Investments in subsidiary undertakings, joint ventures and associates continued

Joint ventures

The Group and Company have a 44.56 per cent (2011: 44.51 per cent) interest through a joint venture company which holds a majority investment in PT Bank Permata Tbk (Permata), in Indonesia.

The Group proportionately consolidates its share of the assets, liabilities, income and expense of this joint venture on a line by line basis. Contingent liabilities set out in note 42, include \$348 million (2011: \$286 million) relating to this joint venture arrangements. These mainly comprise banking guarantees and irrevocable letters of credit. There are no capital commitments related to the Group's investments in these joint ventures. Related party transactions are disclosed in note 47.

The following amounts have been included in the consolidated accounts of the Group:

	2012	2011
	\$million	\$million
Current assets	3,680	3,006
Long-term assets	2,445	2,050
Total assets	6,125	5,056
Current liabilities	(4,765)	(4,066)
Long-term liabilities	(573)	(314)
Total liabilities	(5,338)	(4,380)
Net assets	787	676
Income	287	257
Expenses	(174)	(151)
Impairment	(23)	(20)
Operating profit	90	86
Tax	(25)	(22)
Share of post tax result from joint ventures	65	64

Long-term assets are primarily loans to customers and current liabilities are primarily customer deposits based on contractual maturities.

Investment in joint venture

The Company accounts for its joint venture investment at cost.

	2012	2011
	\$million	\$million
At 1 January	396	396
Additions	93	-
At 31 December	489	396

Standard Chartered Bank

Notes to the financial statements continued

23. Investments in subsidiary undertakings, joint ventures and associates continued

Interests in associates

	Group		Company	
	2012 \$million	2011 \$million	2012 \$million	2011 \$million
At 1 January	903	631	53	53
Translation	14	10	-	-
Additions	4	198	2	-
Share of profits	116	74	-	-
Dividends received	(14)	(10)	-	-
Impairment	(70)	-	(10)	-
At 31 December	953	903	45	53

The Company accounts for its investments in associates at cost.

The following amounts represent the total profit, assets and liabilities of the Group's associated undertakings.

	Group		Company	
	2012 \$million	2011 \$million	2012 \$million	2011 \$million
Profit for the year	609	405	5	5
Total assets	79,637	57,006	114	59
Total liabilities	(75,770)	(53,738)	(26)	(10)
Net assets	3,867	3,268	88	49

Associate	Main areas of operation	Group interest in ordinary share capital %
China Bohai Bank	China	19.9
Fleming Family & Partners	Asia	20.0
Asia Commercial Bank	Vietnam	15.0

The fair value of the listed element of our investment in Asia Commercial Bank ("ACB") at 31 December 2012 is \$111 million (2011: \$145 million). The investments in ACB and China Bohai Bank are less than 20 per cent but both ACB and China Bohai Bank are considered to be associates because of the significant influence the Group is able to exercise over the management of these companies and their financial and operating policies. Significant influence is evidenced largely through the inter change of management personnel and the provision of expertise. The reporting dates of these associates are within three months of the Group's reporting date.

Standard Chartered Bank

Notes to the financial statements continued

24. Business Combinations

2012 acquisitions

Group

On 4 November 2012, the Group completed the acquisition of 100 per cent of the issued and paid up share capital of Credit Agricole Yatirim Bankasi Turk A.S. (CAYBT) a wholly-owned subsidiary of Credit Agricole Corporate and Investment Bank for a consideration of \$63 million recognising goodwill of \$26 million. The net assets acquired primarily comprised balances held with central banks. The goodwill acquired mainly represents intangibles that are not separately recognised and primarily relates to the associated banking licence.

2011 acquisitions

Group

On 8 April 2011, the Group acquired 100 per cent interest in GE Money Pte Limited, a leading specialist in auto and unsecured personal loans in Singapore, for a total cash consideration of \$695 million, recognising goodwill of \$199 million.

On 2 September 2011, the Group acquired 100 per cent interest in Gryphon Partners Advisory Pty Ltd and Gryphon Partners Canada Inc (together "Gryphon Partners") for a total consideration of \$53 million. As required by IFRS 3 *Business combination*, only \$28 million of this consideration is deemed to relate to the cost of acquisition; for accounting purposes the balance is deemed to represent remuneration and is charged to the income statement over the period to 2015. Goodwill of \$11 million was recognised on this transaction.

If these acquisitions had occurred on 1 January 2011 the operating income of the Group would have been approximately \$17,715 million and profit before taxation would have been \$6,787 million. In 2011, these acquisitions contributed \$66 million to the Group's operating income and \$40 million to the Group's profit before taxation since acquisition.

The assets and liabilities arising from the acquisition are as follows:

	Fair value \$million
Cash and balances at central banks	6
Loans and advances to customers	1,545
Intangibles other than goodwill	17
Other assets	24
Total assets	1,592
Other liabilities	1,079
Total liabilities	1,079
Net assets acquired	513
Purchase consideration settled in cash	(718)
Cash and cash equivalents in subsidiary acquired	6
Cash outflow on acquisition	(712)
Purchase consideration:	
Cash paid	718
Contingent consideration	5
Fair value of net assets acquired	(513)
Goodwill	210
Intangible assets acquired:	
Customer relationships	17
Total	17

Goodwill arising on the acquisition is attributable to the synergies expected to arise from integration with the Group, the skilled workforce acquired and the distribution networks. The primary reason for these acquisitions is to enhance capability and broaden product offering to customers and enhance capability.

The fair value amounts contain some provisional balances which will be finalised within 12 months of the acquisition date.

The fair value of loans to banks was \$16 million. The gross contractual amount due was \$16 million, which is expected to be collected.

The fair value of loans to customers was \$1,545 million. The gross contractual amount due was \$1,554 million, of which \$9 million was the best estimate of the contractual cash flows not expected to be collected.

Acquisition related costs of \$1.9 million are included within operating expenses.

Company

On 11 December 2011, the Company acquired business through its Singapore branch from its subsidiary GE Money Singapore PTE Limited for a consideration of \$695 million recognising goodwill of \$199 million.

On 5 September 2011, the Company acquired business through its Australia branch from its subsidiary Gryphon Partners Advisory Pty Ltd for a consideration of \$18 million recognising goodwill of \$11 million.

Standard Chartered Bank

Notes to the financial statements continued

25. Goodwill and intangible assets

Group

	2012				2011			
	Goodwill	Acquired intangibles	Software	Total	Goodwill	Acquired intangibles	Software	Total
	\$million	\$million	\$million	\$million	\$million	\$million	\$million	\$million
Cost								
At 1 January	5,935	897	816	7,648	5,846	885	776	7,507
Exchange translation differences	158	13	37	208	(121)	(5)	(12)	(138)
Acquisitions	34	3	-	37	210	17	-	227
Additions	-	-	296	296	-	-	240	240
Disposals	-	-	-	-	-	-	(47)	(47)
Amounts written off	-	-	(219)	(219)	-	-	(141)	(141)
Other movements	-	-	2	2	-	-	-	-
At 31 December	6,127	913	932	7,972	5,935	897	816	7,648
Provision for amortisation								
At 1 January	-	582	345	927	-	500	330	830
Exchange translation differences	-	14	16	30	-	(5)	(3)	(8)
Amortisation for the period	-	86	190	276	-	87	184	271
Disposals	-	-	-	-	-	-	(31)	(31)
Amounts written off	-	-	(215)	(215)	-	-	(135)	(135)
At 31 December	-	682	336	1,018	-	582	345	927
Net book value	6,127	231	596	6,954	5,935	315	471	6,721

At 1 January 2011, the net book value was: goodwill, \$5,846 million; acquired intangibles, \$385 million; and software, \$446 million.

At 31 December 2012, accumulated goodwill impairment losses incurred from 1 January 2005 amounted to \$69 million (2011: \$69 million).

Company

	2012				2011			
	Goodwill	Acquired intangibles	Software	Total	Goodwill	Acquired intangibles	Software	Total
	\$million	\$million	\$million	\$million	\$million	\$million	\$million	\$million
Cost								
At 1 January	466	126	668	1,260	259	105	596	960
Exchange translation differences	13	-	35	48	(3)	4	(9)	(8)
Acquisitions	8	3	-	11	210	17	-	227
Additions	-	-	243	243	-	-	204	204
Amounts written off	-	-	(205)	(205)	-	-	(123)	(123)
At 31 December	487	129	741	1,357	466	126	668	1,260
Provision for amortisation								
At 1 January	-	75	252	327	-	56	216	272
Exchange translation differences	-	-	13	13	-	-	-	-
Amortisation for the period	-	25	163	188	-	19	159	178
Amounts written off	-	-	(202)	(202)	-	-	(123)	(123)
At 31 December	-	100	226	326	-	75	252	327
Net book value	487	29	515	1,031	466	51	416	933

At 1 January 2011, the net book value was: goodwill, \$259 million; acquired intangibles, \$49 million; and software, \$380 million.

Standard Chartered Bank

Notes to the financial statements continued

25. Goodwill and intangible assets continued

At 31 December 2012, accumulated goodwill impairment losses incurred from 1 January 2005 amounted to \$69 million (2011: \$69 million).

	Group		Company	
	2012 \$million	2011 \$million	2012 \$million	2011 \$million
Acquired intangibles comprise:				
Core deposits	18	25	-	-
Customer relationships	124	174	29	51
Brand names	86	112	-	-
Licences	3	4	-	-
Net book value	231	315	29	51

Group

Acquired intangibles primarily comprise those recognised as part of the acquisitions of Korea First Bank (subsequently renamed Standard Chartered Bank Korea Limited), Permata, Union Bank (now amalgamated into Standard Chartered Bank (Pakistan) Limited), Hsinchu (now amalgamated into Standard Chartered Bank (Taiwan) Limited), Pembroke, Harrison Lovegrove, American Express Bank and the custody business in Africa. The acquired intangibles are amortised over periods from four years to a maximum of 16 years in the case of the customer relationships intangible acquired in Korea First Bank (KFB).

An annual assessment is made as to whether the current carrying value of goodwill is impaired. For the purposes of impairment testing goodwill is allocated at the date of acquisition to a cash-generating unit (CGU), and the table above sets out the goodwill allocated to each CGU. Goodwill is considered to be impaired if the carrying amount of the relevant CGU exceeds its recoverable amount. The recoverable amounts for all the CGUs were measured based on value-in-use. The key assumptions used in determining the recoverable amounts are set out above and are solely estimates for the purposes of assessing impairment of acquired goodwill.

The calculation of value-in-use for each CGU is based on cash flow projections over a 20 year period, including a terminal value which is determined based on long-term earnings multiple consistent with available market data. These cash flows are discounted using a pre-tax discount rate which reflects current market rates appropriate to the CGU as set out in the table above.

The cash flow projections are based on budgets and forecasts approved by management covering one year, except for Taiwan, Korea, Thailand, Pakistan and Permata CGUs, where management forecasts cover the four years to 2016. Management forecasts project growth rates greater than long-term GDP rates but which are in line with past performance as adjusted to reflect the current economic climate. For the period after management approved forecasts, the cash flows are extrapolated forward using steady long-term forecast GDP growth rates appropriate to the CGU.

At 31 December 2012, the results of our review indicate that there is no goodwill impairment. The Group also believes that a reasonable possible change in any of the key assumptions on which the recoverable amounts have been based would not cause the carrying amounts to exceed their recoverable amount in the future.

It is possible that certain scenarios could be constructed where a combination of a material change in the discount rate coupled with a reduction in current business plan forecasts or the GDP growth rate, could potentially result in the carrying amount of the goodwill exceeding the recoverable amount.

Based on our review and assessment, we believe that the Korea CGU would be more sensitive to such a scenario.

Standard Chartered Bank

Notes to the financial statements continued

25. Goodwill and intangible assets continued

The following table sets out the allocation of goodwill arising on acquisitions to CGUs, together with the pre-tax discount rate and long-term GDP growth rates used in determining value-in-use.

Acquisition	Cash Generating Unit	2012			2011		
		Goodwill \$million	Pre-tax discount rate per cent	Long-term forecast GDP growth rates per cent	Goodwill \$million	Pre-tax discount rate per cent	Long-term forecast GDP growth rates per cent
KFB, A Brain and Yeahreum	Korean business	1,850	16.4	3.9	1,720	18.1	4.0
Union Bank	Pakistan business	270	19.0	3.5	292	27.1	4.8
Hsinchu and Asia Trust	Taiwan business	1,348	16.3	4.8	1,294	17.2	4.9
Manhattan Card Business	Credit card and personal loan - Asia, India & MESA	494	15.8	1.8	494	16.5	1.6
Grindlays (India) and STCI	India business	364	16.8	6.8	377	18.7	8.1
Grindlays (MESA)	MESA business	368	20.4	4.0	370	21.1	3.7
Standard Chartered Bank (Thai)	Thailand business	331	16.1	5.0	324	16.3	4.9
Permata	Group's share of Permata (Indonesia business)	162	16.9	6.7	172	20.0	6.9
American Express Bank	Financial Institutions and Private Banking Business	396	15.2	1.8	396	15.6	1.6
Harrison Lovegrove, Pembroke, Cazenove Asia, First Africa and Gryphon partners.	Corporate advisory business	77	15.9	1.8	76	16.7	1.6
GE Money and GE Singapore	Consumer banking business in Singapore	228	12.6	3.8	208	12.8	4.1
Other		239	15.6 - 17.0	1.8 - 7.5	212	15.9 - 17.4	1.6 - 5.3
		6,127			5,935		

Company

Acquired intangibles primarily comprise those recognised as part of the acquisitions of American Express Bank, GE Money and GE Singapore.

Significant items of goodwill arising on acquisitions have been allocated to the following cash generating units for the purposes of impairment testing:

Acquisition	Cash Generating Unit	Goodwill	
		2012 \$million	2011 \$million
American Express Bank	Financial Institutions and Private Banking Business	148	148
GE Money and GE Singapore	Consumer banking business in Singapore	228	208
Other		111	110
		487	466

All recoverable amounts were measured based on value in use.

The key assumptions and approach to determining value in use calculations, as set out above, are solely estimates for the purposes of assessing impairment on acquired goodwill. The calculation for each unit uses cash flow projections based on budgets and forecasts approved by management covering one year. These are then extrapolated for periods of up to a further 19 years using steady long term growth forecast GDP growth rates and as terminal value determined based on long term earnings multiples.

Where these rates are different from available market data on long term rates, that fact is stated above. The cash flows are discounted using a pre-tax discount rate which reflects current market rates appropriate to the cash generating unit. Management believes that a reasonable possible change in any of the key assumptions on which recoverable amounts have been based would not cause the carrying amounts to exceed their recoverable amount.

Standard Chartered Bank

Notes to the financial statements continued

26. Property, plant and equipment

Group

	2012				2011			
	Premises \$million	Equipment \$million	Operating lease assets \$million	Total \$million	Premises \$million	Equipment \$million	Operating lease assets \$million	Total \$million
Cost or valuation								
At 1 January	2,559	826	3,021	6,406	2,665	837	2,183	5,685
Exchange translation differences	54	7	-	61	(74)	(40)	-	(114)
Additions	73	95	1,788	1,956	138	148	1,049	1,335
Acquisitions	2	-	-	2	-	1	-	1
Disposals and fully depreciated assets written off	(111)	(84)	-	(195)	(138)	(120)	(211)	(469)
Transfers to assets held for re-sale	-	-	-	-	(32)	-	-	(32)
At 31 December	2,577	844	4,809	8,230	2,559	826	3,021	6,406
Depreciation								
Accumulated at 1 January	531	558	239	1,328	471	557	150	1,178
Exchange translation differences	8	5	-	13	(7)	(29)	-	(36)
Charge for the year	127	136	148	411	123	145	100	368
Attributable to assets sold or written off	(86)	(82)	-	(168)	(56)	(115)	(11)	(182)
Accumulated at 31 December	580	617	387	1,584	531	558	239	1,328
Net book amount at 31 December	1,997	227	4,422	6,646	2,028	268	2,782	5,078

At 1 January 2011, the net book value was: premises, \$2,194 million; equipment, \$280 million and operating lease assets, \$2,033 million.

Assets held under finance leases have a net book value of \$173 million (2011: \$192 million) with minimum lease payments of \$7 million (2011: \$7 million) before and after future finance charges.

Company

	2012			2011		
	Premises \$million	Equipment \$million	Total \$million	Premises \$million	Equipment \$million	Total \$million
Cost or valuation						
At 1 January	666	285	951	696	296	992
Exchange translation differences	(3)	-	(3)	(58)	(19)	(77)
Additions	22	39	61	70	75	145
Disposals and fully depreciated assets written off	(46)	(35)	(81)	(38)	(67)	(105)
Reclassification	-	-	-	(4)	-	(4)
At 31 December	639	289	928	666	285	951
Depreciation						
Accumulated at 1 January	118	148	266	108	155	263
Exchange translation differences	-	-	-	(4)	(11)	(15)
Charge for the year	44	65	109	41	68	109
Attributable to assets sold or written off	(39)	(34)	(73)	(27)	(64)	(91)
Accumulated at 31 December	123	179	302	118	148	266
Net book amount at 31 December	516	110	626	548	137	685

At 1 January 2011, the net book value was; premises \$588 million; and equipment \$141 million.

Assets held under finance leases have a net book value of \$173 million (2011: \$191 million) with minimum lease payments of \$5 million (2011: \$4 million) before and after future finance charges.

Standard Chartered Bank

Notes to the financial statements continued

27. Deferred tax

Group

The following are the major deferred tax liabilities and assets recognised by the Group and movements thereon during the year:

	At 1 January 2012	Exchange & other adjustments	Acquisitions/ disposals	Charge/ (credit) to profit	Charge/ (credit) to equity	At 31 December 2012
	\$million	\$million	\$million	\$million	\$million	\$million
Deferred taxation comprises:						
Accelerated tax depreciation	(47)	16	-	159	-	128
Impairment provisions on loans and advances	19	20	-	(190)	-	(151)
Tax losses carried forward	(433)	(15)	-	(29)	-	(477)
Available-for-sale assets	(3)	1	-	1	87	86
Premises revaluation	-	(1)	-	1	-	-
Cash flow hedges	(2)	-	-	-	19	17
Retirement benefit obligations	(105)	(1)	-	12	(14)	(108)
Share based payments	(88)	(2)	-	18	(8)	(80)
Other temporary differences	(46)	-	-	101	-	55
Net deferred tax assets	(705)	18	-	73	84	(530)

	At 1 January 2011	Exchange & other adjustments	Acquisitions/ disposals	Charge/ (credit) to profit	Charge/ (credit) to equity	At 31 December 2011
	\$million	\$million	\$million	\$million	\$million	\$million
Deferred taxation comprises:						
Accelerated tax depreciation	(174)	(16)	25	118	-	(47)
Impairment provisions on loans and advances	41	9	-	(31)	-	19
Tax losses carried forward	(324)	(13)	-	(96)	-	(433)
Available-for-sale assets	71	-	-	-	(74)	(3)
Premises revaluation	1	(1)	-	-	-	-
Cash flow hedges	18	-	-	-	(20)	(2)
Unrelieved foreign tax	-	-	-	-	-	-
Retirement benefit obligations	(77)	2	-	7	(37)	(105)
Share based payments	(175)	-	-	66	21	(88)
Other temporary differences	(145)	11	(13)	101	-	(46)
Net deferred tax assets	(764)	(8)	12	165	(110)	(705)

Deferred taxation comprises assets and liabilities as follows:

	2012			2011		
	Total \$million	Asset \$million	Liability \$million	Total \$million	Asset \$million	Liability \$million
Deferred taxation comprises:						
Accelerated tax depreciation	128	(15)	143	(47)	(114)	67
Impairment provisions on loans and advances	(151)	(319)	168	19	(196)	215
Tax losses carried forward	(477)	(404)	(73)	(433)	(401)	(32)
Available-for-sale assets	86	51	35	(3)	(18)	15
Premises revaluation	-	-	-	-	1	(1)
Cash flow hedges	17	14	3	(2)	(6)	4
Retirement benefit obligations	(108)	(103)	(5)	(105)	(98)	(7)
Share based payments	(80)	(67)	(13)	(88)	(63)	(25)
Other temporary differences	55	152	(97)	(46)	60	(106)
	(530)	(691)	161	(705)	(835)	130

Where permitted deferred tax assets and liabilities are offset on an entity basis and not by component of deferred taxation.

Standard Chartered Bank

Notes to the financial statements continued

27. Deferred tax continued

Company

The following are the major deferred tax liabilities and assets recognised by the Company and movements thereon during the reporting period:

	At 1 January 2012	Exchange & other adjustments	Charge/ (credit) to profit	Charge/ (credit) to equity	At 31 December 2012
	\$million	\$million	\$million	\$million	\$million
Deferred taxation comprises:					
Accelerated tax depreciation	(10)	3	19	-	12
Impairment provisions on loans and advances	(94)	3	(139)	-	(230)
Tax losses carried forward	(267)	3	(39)	-	(303)
Available-for-sale assets	5	(1)	1	33	38
Cash flow hedges	(5)	-	-	20	15
Retirement benefit obligations	(75)	(1)	12	(14)	(78)
Share based payments	(58)	-	4	(8)	(62)
Other temporary differences	37	8	66	-	111
	(467)	15	(76)	31	(497)

	At 1 January 2011	Exchange & other adjustments	Charge/ (credit) to profit	Charge/ (credit) to equity	At 31 December 2011
	\$million	\$million	\$million	\$million	\$million
Deferred taxation comprises:					
Accelerated tax depreciation	(153)	-	143	-	(10)
Impairment provisions on loans and advances	(76)	8	(26)	-	(94)
Tax losses carried forward	(192)	(1)	(74)	-	(267)
Available-for-sale assets	28	-	-	(23)	5
Cash flow hedges	21	-	-	(26)	(5)
Retirement benefit obligations	(60)	1	9	(25)	(75)
Share based payments	(154)	-	75	21	(58)
Other temporary differences	18	9	10	-	37
	(568)	17	137	(53)	(467)

Deferred taxation comprises assets and liabilities as follows:

	2012			2011		
	Total \$million	Asset \$million	Liability \$million	Total \$million	Asset \$million	Liability \$million
Deferred taxation comprises:						
Accelerated tax depreciation	12	(37)	49	(10)	(37)	27
Impairment provisions on loans and advances	(230)	(245)	15	(94)	(120)	26
Tax losses carried forward	(303)	(303)	-	(267)	(267)	-
Available-for-sale assets	38	30	8	5	(3)	8
Cash flow hedges	15	13	2	(5)	(7)	2
Retirement benefit obligations	(78)	(77)	(1)	(75)	(74)	(1)
Share based payments	(62)	(62)	-	(58)	(58)	-
Other temporary differences	111	110	1	37	47	(10)
	(497)	(571)	74	(467)	(519)	52

Where permitted deferred tax assets and liabilities are offset on an entity basis and not by component of deferred taxation.

Standard Chartered Bank

Notes to the financial statements continued

27. Deferred tax continued

At 31 December 2012, the Group has net deferred tax assets of \$530 million (2011: \$705 million).

The recoverability of the Group's deferred tax assets is based on management's judgment of the availability of future taxable profits against which the deferred tax assets will be utilised.

Of the group's total deferred tax asset, \$477 million relates to tax losses carried forward. These tax losses have arisen in individual legal entities and will be offset as future taxable profits arise in those entities.

\$238 million of these losses have arisen in the UK, where there is no expiry date for unused tax losses. There is a defined profit stream against which the losses are forecast to be fully utilised, over a period of 15 years.

\$52 million of these losses have arisen in Ireland, where there is no expiry date for unused tax losses. These losses relate to aircraft leasing and are expected to be fully utilised over the useful economical life of the assets being up to 25 years.

\$50 million of these losses have arisen in Taiwan. Management forecasts show that the losses are expected to be fully utilised over a period of 5 years. The tax losses expire after 10 years.

\$40 million of these losses have arisen in Australia, where there is no expiry date for unused tax losses. Management forecasts show that the losses are expected to be fully utilised over a period of 15 years.

The remaining losses relate to other jurisdictions and are expected to be recovered in less than 5 years.

	Group		Company	
	2012 \$million	2011 \$million	2012 \$million	2011 \$million
No account has been taken of the following potential deferred taxation assets/(liabilities):				
Unremitted earnings from overseas subsidiaries	(316)	(294)	(186)	(131)
Foreign exchange movements on investments in branches	36	45	36	45
Tax losses	112	78	84	72
Held over gains on incorporations of overseas branches	(496)	(476)	(496)	(476)

28. Deposits by banks

	Group		Company	
	2012 \$million	2011 \$million	2012 \$million	2011 \$million
Deposits by banks	36,477	35,296	28,375	27,933
Deposits by banks included within:				
Financial liabilities held at fair value through profit or loss (note 15)	968	1,092	968	1,013
Total deposits by banks	37,445	36,388	29,343	28,946

29. Customer accounts

	Group		Company	
	2012 \$million	2011 ¹ \$million	2012 \$million	2011 ¹ \$million
Customer accounts	377,639	345,726	169,882	150,772
Customer accounts included within:				
Financial liabilities held at fair value through profit or loss (note 15)	12,243	9,118	4,968	1,846
Total customer accounts	389,882	354,844	174,850	152,618

¹ Amounts have been restated as explained in note 46.

Included in customer accounts were deposits of \$2,862 million (2011: \$2,000 million) held for the Group and \$158 million (2011: \$115 million) for the Company, as collateral for irrevocable commitments under import letters of credit.

Standard Chartered Bank

Notes to the financial statements continued

30. Debt securities in issue

Group

	2012			2011		
	Certificates of deposit of \$100,000 or more \$million	Other debt securities in issue \$million	Total \$million	Certificates of deposit of \$100,000 or more \$million	Other debt securities in issue \$million	Total \$million
Debt securities in issue	16,982	24,463	41,445	15,787	19,979	35,766
Debt securities in issue included within:						
Financial liabilities held at fair value through profit or loss (note 15)	165	5,096	5,261	163	4,270	4,433
Total debt securities in issue	17,147	29,559	46,706	15,950	24,249	40,199

Company

	2012			2011		
	Certificates of deposit of \$100,000 or more \$million	Other debt securities in issue \$million	Total \$million	Certificates of deposit of \$100,000 or more \$million	Other debt securities in issue \$million	Total \$million
Debt securities in issue	15,463	16,496	31,959	11,930	12,993	24,923
Debt securities in issue included within:						
Financial liabilities held at fair value through profit or loss (note 15)	-	3,869	3,869	-	2,366	2,366
Total debt securities in issue	15,463	20,365	35,828	11,930	15,359	27,289

31. Other liabilities

	Group		Company	
	2012 \$million	2011 \$million	2012 \$million	2011 \$million
Financial liabilities held at amortised cost (note 15)				
Notes in circulation	4,191	4,043	-	-
Acceptances and endorsements	5,053	5,473	2,505	2,303
Cash collateral	3,245	3,145	2,881	2,920
Unsettled trades and other financial liabilities	7,250	6,508	3,932	3,138
	19,739	19,169	9,318	8,361
Non-financial liabilities				
Other liabilities	4,769	4,600	2,420	2,658
	24,508	23,769	11,738	11,019

Hong Kong currency notes in circulation of \$4,191 million (2011: \$4,043 million) which are secured by the government of Hong Kong SAR certificates of indebtedness of the same amount included in other assets (note 22).

Standard Chartered Bank

Notes to the financial statements continued

32. Subordinated liabilities and other borrowed funds

	2012	2011
	\$million	\$million
Subordinated loan capital - issued by subsidiary undertakings		
\$750 million 5.875 per cent subordinated notes 2020	847	763
\$300 million floating rate subordinated note 2017 (callable 2012)	-	300
\$22 million 9.75 per cent fixed to floating rate note 2021 (callable and floating rate from 2016)	23	25
BWP 127.26 million 8.2 per cent subordinated notes 2022	16	-
BWP 75 million floating rate subordinated Notes 2017 (callable 2013)	10	10
BWP 70 million floating rate subordinated notes 2021 (callable 2016)	9	9
BWP 50 million floating rate subordinated notes 2022 (callable 2017)	6	-
IDR 1,800 billion 9.4 per cent subordinated notes 2019	81	-
IDR 1,750 billion 11 per cent subordinated notes 2018	76	82
IDR 700 billion 8.9 per cent subordinated notes 2019	32	-
KRW 300 billion 7.05 per cent subordinated debt 2019 (callable 2014)	280	260
KRW 270 billion 4.67 per cent subordinated debt 2021 (callable 2016)	252	235
KRW 260 billion 6.08 per cent subordinated debt 2018 (callable 2013)	244	230
KRW 90 billion 6.05 per cent subordinated debt 2018	95	86
KRW 30 billion Floating Rate subordinated debt 2011	-	26
MYR 500 million 4.28 per cent subordinated bonds 2017 (callable and floating rate from 2012)	-	157
PKR 2.5 billion floating rate notes 2022 (callable 2017)	26	-
PKR 1 billion floating rate notes 2013	3	8
SGD 750 million 4.15 per cent subordinated notes 2021 (callable and floating rate from 2016)	607	624
TWD 10 billion 2.9 per cent subordinated debt 2019 (callable 2014)	349	337
TZS 10 billion 11 per cent subordinated notes 2020 (callable and floating rate from 2015)	6	6
UGX 40 billion 13 per cent subordinated notes 2020 (callable 2015)	15	16
	2,977	3,174
Subordinated loan capital - issued by Company		
£700 million 7.75 per cent subordinated notes 2018	1,353	1,281
£675 million 5.375 per cent undated step up subordinated notes (callable and floating rate from 2020)	781	730
£600 million 8.103 per cent step up callable perpetual preferred securities (callable and floating rate from 2016)	1,177	1,154
£300 million 6.0 per cent subordinated notes 2018 (callable and floating rate from 2013)	488	488
£200 million 7.75 per cent undated step up subordinated notes (callable and floating rate from 2022)	446	419
€1,100 million 5.875 per cent subordinated notes 2017	1,706	1,662
€750 million 3.625 per cent subordinated notes 2017 (callable and floating rate from 2012)	-	977
€675 million floating rate subordinated notes 2018 (callable 2013)	890	886
\$1.8 billion floating rate undated subordinated notes callable 2014	1,800	1,800
\$1.6 billion floating rate subordinated notes 2022 (callable 2017)	1,600	-
\$1.5 billion 9.5 per cent step up perpetual preferred securities (callable 2014)	1,582	1,602
\$1.3 billion floating rate subordinated notes 2021 (callable 2016)	1,300	1,300
\$1.25 billion floating rate subordinated notes 2022 (callable 2017)	1,250	-
\$1 billion 6.4 per cent subordinated notes 2017	1,188	1,193
\$1 billion floating rate subordinated notes 2022	1,000	-
\$960 million floating rate subordinated notes 2022	960	-
\$700 million 8.0 per cent subordinated notes 2031	675	683
\$100 million floating rate subordinated notes 2018 (callable 2013)	100	100
JPY 10 billion 3.35 per cent subordinated notes 2023 (callable 2018)	128	149
SGD 450 million 5.25 per cent subordinated notes 2023 (callable and floating rate from 2018)	408	376
Primary Capital Floating Rate Notes:		
\$400 million	57	57
\$300 million (Series 2)	81	81
\$400 million (Series 3)	83	83
\$200 million (Series 4)	51	51
£150 million	50	233
\$925 million 8.125 per cent non-cumulative redeemable preference shares (Callable 2013)	953	983
Total for Company	20,107	16,288
Total for Group	23,084	19,462

Standard Chartered Bank

Notes to the financial statements continued

32. Subordinated liabilities and other borrowed funds continued

All subordinated liabilities are unsecured, unguaranteed and subordinated to the claims of other creditors including without limitation, customer deposits and deposits by banks. The Group has the right to settle these debt instruments in certain circumstances as set out in the contractual agreements.

Of the total subordinated liabilities and other borrowings, \$13,808 million is at fixed interest rates (2011: \$12,918 million).

On 25 January 2012, Standard Chartered Bank issued \$1 billion floating rate notes due January 2022.

On 15 June 2012, PT Bank Permata Tbk issued IDR 700 billion 8.9 percent fixed interest rate notes due June 2019.

On 27 June 2012, Standard Chartered Bank (Botswana) Limited issued BWP 50 million floating interest rate notes due June 2022 and BWP 127.26 million fixed interest rate notes due June 2022.

On 29 June 2012, Standard Chartered Bank (Pakistan) Limited issued PKR 2.5 billion floating interest rate notes due June 2022.

On 12 July 2012, Standard Chartered Bank issued \$1.25 billion floating rate notes due July 2022.

On 23 November 2012, Standard Chartered Bank issued \$960 million floating rate notes due November 2022.

On 19 December 2012, PT Bank Permata Tbk issued IDR 1,800 billion 9.4 percent fixed interest rate notes due December 2019.

On 20 December 2012, Standard Chartered Bank issued \$1.6 billion floating rate notes due December 2022.

On 2 January 2012, Standard Chartered Bank Korea Limited redeemed KRW 30 billion floating rate subordinated debt on maturity.

On 3 February 2012, Standard Chartered Bank exercised its right to redeem its €750 million 3.625 per cent notes in full on the first optional call date.

On 13 April 2012, Standard Chartered Bank Hong Kong Limited exercised its right to redeem its \$300 million floating rate subordinated notes in full on the first optional call date.

On 15 November 2012, Standard Chartered Bank Malaysia Berhad exercised its right to redeem its MYR 500 million 4.28 per cent subordinated bonds in full on the first optional call date.

Standard Chartered Bank

Notes to the financial statements continued

33. Provisions for liabilities and charges

Group

	2012		
	Provision for credit commitments	Other provisions	Total
	\$million	\$million	\$million
At 1 January	14	355	369
Exchange translation differences	1	-	1
Charge against profit	5	105	110
Provisions utilised	10	(275)	(265)
At 31 December	30	185	215

Provision for credit commitment comprises those undrawn contractually committed facilities where there is doubt as to the borrowers' ability to meet their repayment obligations. Other provisions include provisions for regulatory settlement, legal claims and restructuring.

Company

	2012		
	Provision for credit commitments	Other provisions	Total
	\$million	\$million	\$million
At 1 January	106	19	125
Exchange translation differences	-	-	-
Charge against profit	7	8	15
Provisions utilised	1	(8)	(7)
At 31 December	114	19	133

Provision for credit commitments for the Company comprises primarily provisions made as part of risk participation agreements with subsidiaries.

34. Retirement benefit obligations

Retirement benefit obligations comprise:

	2012	2011
	\$million	\$million
Defined benefit schemes obligation	483	499
Defined contribution schemes obligation	21	20
Net book amount	504	519

	2012	2011
	\$million	\$million
At 1 January	519	310
Exchange translation differences	14	(5)
Charge against profit (net of finance income)	302	282
Change in other comprehensive income	76	189
Net payments	(407)	(257)
At 31 December	504	519

Retirement benefit charge comprises:

	2012	2011
	\$million	\$million
Defined benefit schemes	99	103
Defined contribution schemes	203	179
Charge against profit (note 8)	302	282

Standard Chartered Bank

Notes to the financial statements continued

34. Retirement benefit obligations continued

Group

The disclosures required under IAS 19 have been calculated by qualified independent actuaries based on the most recent full actuarial valuations updated, where necessary, to 31 December 2012. Pension costs for the purpose of these accounts were assessed using the projected unit method and the assumptions set out below which were based on market data at the date of calculation.

The principal assumptions relate to the rate of inflation and the discount rate. The discount rate is equal to the yield on high-quality corporate bonds which have a term to maturity approximating that of the related liability.

UK Fund

The financial position of the Group's principal retirement benefit scheme, the Standard Chartered Pension Fund (the 'Fund') (a defined benefit scheme), is assessed in the light of the advice of an independent qualified actuary. The most recent actuarial assessment of the Fund for the purpose of funding was performed as at 31 December 2008 by A Zegleman, Fellow of the Faculty of Actuaries, of Towers Watson, using the projected unit method. The 31 December 2011 funding valuation is currently underway and its findings on updated life expectancies are reflected in the IAS 19 position at 31 December 2012.

Following the 31 December 2008 valuation, regular contributions to the Fund were set at 28 per cent of pensionable salary for all members. Over 2012, additional contributions were paid under the terms of the 2008 valuation agreement, bringing the total amount paid to \$52 million.

No further contributions are planned in 2013 under the terms of the 2008 valuation.

With effect from 1 July 1998 the Fund was closed to new entrants and new employees have subsequently been offered membership of a defined contribution scheme. Due to the closure of the Fund to new entrants, it is expected that the current service cost will increase, as a percentage of pensionable pay, as the members approach retirement.

Overseas Schemes

The principal overseas defined benefit arrangements operated by the Group are in Germany, Hong Kong, India, Jersey, Korea, Taiwan and the United States (US).

Employer contributions to defined benefit plans over 2013 are expected to be \$80 million.

The financial assumptions used at 31 December 2012 were:

	Funded defined benefit schemes			
	UK Fund ¹		Overseas Schemes ²	
	2012 %	2011 %	2012 %	2011 %
Price inflation	3.00	3.10	1.50 – 4.50	1.50 – 4.50
Salary increases	2.30	3.10	2.10 – 6.00	3.10 – 6.00
Pension increases	2.30	2.10	1.75 – 3.00	1.75 – 3.10
Discount rate	4.50	4.80	0.70 – 8.40	1.40 – 8.80

¹ The assumptions for life expectancy for the UK Fund assumes that a male member currently aged 60 will live for 28 years (2011: 26 years) and a female member 29 years (2011: 29 years) and a male member currently aged 40 will live for 30 years (2011: 29 years) and a female member 31 years (2011: 31 years) after their 60th birthday.

² The range of assumptions shown is for the main funded defined benefit overseas schemes in Germany, Hong Kong, India, Jersey, Korea, Taiwan and the US. These comprise over 80 per cent of the total liabilities of funded overseas schemes.

These assumptions are likely to change in the future and thus will affect the value placed on the liabilities. For example, if the discount rate for the UK Fund increased by 25 basis points the liability would reduce by approximately \$65 million. Whilst changes in other assumptions would also have an impact, the effect would not be as significant.

Standard Chartered Bank

Notes to the financial statements continued

34. Retirement benefit obligations continued

Group continued

	Unfunded schemes			
	Post-retirement medical ¹		Other ²	
	2012 %	2011 %	2012 %	2011 %
Price inflation	2.50	2.50	3.00 – 5.00	3.10 – 5.00
Salary increases	4.00	4.00	2.30 – 6.00	3.10 – 6.00
Pension increases	N/A	N/A	2.30	2.10
Discount rate	4.20	4.70	4.20 – 8.40	4.70 – 8.80
Post-retirement medical rate	9% in 2012 reducing by 1% per annum to 5% in 2016	8% in 2011 reducing by 1% per annum to 5% in 2014	N/A	N/A

¹ The post-retirement medical plan is in the US.

² The range of assumptions shown is for the main Unfunded schemes in India, Indonesia, UAE and the UK.

The assets and liabilities of the schemes, attributable to defined benefit members, at 31 December 2012 were:

	Funded defined benefit schemes				Unfunded schemes			
	UK Fund		Overseas schemes		Post-retirement medical		Other	
	Expected return on assets %	Value \$million	Expected return on assets % ³	Value \$million	Expected return on assets %	Value \$million	Expected return on assets %	Value \$million
At 31 December 2012								
Equities	8.00	382	6.30 – 16.00	254	N/A	N/A	N/A	N/A
Bonds	3.20	1,072	1.00 – 16.00	229	N/A	N/A	N/A	N/A
Property	7.50	58	5.25 – 16.00	8	N/A	N/A	N/A	N/A
Others	8.00	190	0.50 – 16.00	173	N/A	N/A	N/A	N/A
Total market value of assets		1,702		664		N/A		N/A
Present value of the schemes' liabilities		(1,795)		(854)		(28)		(172)
Net pension liability		(93)		(190)		(28)		(172)

³ IAS 19R removes the impact of expected asset returns on the Income statement. These figures are included here for presentational purposes and are sent at the same level as the 31 December 2011 returns.

	Funded defined benefit schemes				Unfunded schemes			
	UK Fund		Overseas schemes		Post-retirement medical		Other	
	Expected return on assets %	Value \$million	Expected return on assets %	Value \$million	Expected return on assets %	Value \$million	Expected return on assets %	Value \$million
At 31 December 2011								
Equities	8.00	320	6.38 – 16.00	210	N/A	N/A	N/A	N/A
Bonds	3.20	889	1.00 – 16.00	208	N/A	N/A	N/A	N/A
Property	7.50	50	5.25 – 16.00	7	N/A	N/A	N/A	N/A
Others	8.00	276	0.50 – 16.00	158	N/A	N/A	N/A	N/A
Total market value of assets		1,535		583		N/A		N/A
Present value of the schemes' liabilities		(1,609)		(832) ⁴		(28)		(148)
Net pension liability		(74)		(249)		(28)		(148)

⁴ Includes \$4 million impact as a result of IFRIC 14 'unrecognisable surplus' in Kenya

	Funded defined benefit schemes		Unfunded schemes	
	UK Fund	Overseas schemes	Post-retirement medical	Other
	Value \$million	Value \$million	Value \$million	Value \$million
At 31 December 2010				
Total market value of assets	1,552	597	N/A	N/A
Present value of the schemes' liabilities	(1,545)	(741)	(21)	(139)
Net pension asset/(liability)	7	(144)	(21)	(139)
At 31 December 2009				
Total market value of assets	1,478	531	N/A	N/A
Present value of the schemes' liabilities	(1,704)	(649)	(20)	(134)
Net pension liability	(226)	(118)	(20)	(134)
At 31 December 2008				
Total market value of assets	1,232	489	N/A	N/A
Present value of the schemes' liabilities	(1,296)	(693)	(12)	(153)
Net pension liability	(64)	(204)	(12)	(153)

The expected return on plan assets is set by reference to historical returns in each of the main asset classes, current market indicators such as long term bond yields and the expected long term strategic asset allocation of each plan.

Standard Chartered Bank

Notes to the financial statements continued

34. Retirement benefit obligations continued

Group continued

The pension cost for defined benefit schemes was:

	Funded defined benefit schemes		Unfunded schemes		Total \$million
	UK Fund \$million	Overseas schemes \$million	Post- retirement medical \$million	Other \$million	
Year ended 31 December 2012					
Current service cost	8	74	1	19	102
Past service cost	-	-	-	3	3
Gains on settlements and curtailments	-	(6)	-	-	(6)
Expected return on pension scheme assets	(80)	(32)	-	-	(112)
Interest on pension scheme liabilities	77	26	1	8	112
Total charge to profit before deduction of tax	5	62	2	30	99
Gain on assets above expected return ¹	(53)	(22)	-	-	(75)
Experience loss on liabilities	115	28	-	8	151
Total loss recognised directly in other comprehensive income before tax	62	6	-	8	76
Deferred taxation	(14)	-	-	-	(14)
Total loss after tax	48	6	-	8	62

¹ The actual return on the UK fund assets was \$133 million and on overseas scheme assets was \$54 million.

The total cumulative amount recognised directly in the statement of comprehensive income before tax to date is a loss of \$376 million (2011: loss of \$300 million).

	Funded defined benefit schemes		Unfunded schemes		Total \$million
	UK Fund \$million	Overseas schemes \$million	Post- retirement medical \$million	Other \$million	
Year ended 31 December 2011					
Current service cost	8	74	1	18	101
Past service cost	2	1	-	-	3
(Gain)/loss on settlements and curtailments	-	(6)	-	1	(5)
Expected return on pension scheme assets	(86)	(34)	-	-	(120)
Interest on pension scheme liabilities	85	30	1	8	124
Total charge to profit before deduction of tax	9	65	2	27	103
Loss on assets below expected return ²	26	32	-	-	58
Experience loss on liabilities	58	61	7	5	131
Total loss recognised directly in statement of comprehensive income before tax	84	93	7	5	189
Deferred taxation	(11)	(22)	(3)	(1)	(37)
Total loss after tax	73	71	4	4	152

² The actual return on the UK fund assets was \$60 million and on overseas scheme assets was \$2 million.

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Notes to the financial statements continued

34. Retirement benefit obligations continued

Group continued

	Funded defined benefit schemes		Unfunded schemes		
	UK Fund \$million	Overseas schemes \$million	Post- retirement medical \$million	Other \$million	Total \$million
Year ended 31 December 2010					
Gain on assets in excess of expected return ³	(42)	(17)	-	-	(59)
Experience (gain)/loss on liabilities	(67)	35	-	8	(24)
Total (gain)/loss recognised directly in statement of comprehensive income before tax	(109)	18	-	8	(83)
Deferred taxation	30	(12)	-	(1)	17
Total (gain)/loss after tax	(79)	6	-	7	(66)
Year ended 31 December 2009					
Gain on assets in excess of expected return ⁴	(76)	(38)	-	-	(114)
Experience loss/(gain) on liabilities	236	(4)	7	25	264
Total loss/(gain) recognised directly in statement of comprehensive income before tax	160	(42)	7	25	150
Deferred taxation	(41)	4	-	-	(37)
Total los/(gain) after tax	119	(38)	7	25	113
Year ended 31 December 2008					
Loss on assets in excess of expected return ⁵	203	130	-	-	333
Experience (gain)/loss on liabilities	(143)	35	-	4	(104)
Total loss recognised directly in statement of comprehensive income before tax	60	165	-	4	229
Deferred taxation	(16)	(44)	-	-	(60)
Total loss after tax	44	121	-	4	169

³ The actual return on the UK fund assets was \$122 million and on overseas scheme assets was \$48 million.

⁴ The actual return on the UK fund assets was \$159 million and on overseas scheme assets was \$67 million.

⁵ The actual return on the UK fund assets was \$99 million and on overseas scheme assets was \$94 million.

Movement in the pension schemes and post retirement medical deficit during the year comprise:

	Funded defined benefit schemes		Unfunded schemes		
	UK Fund \$million	Overseas schemes \$million	Post- retirement medical \$million	Other \$million	Total \$million
Year ended 31 December 2012					
Deficit at 1 January 2012	(74)	(249)	(28)	(148)	(499)
Contributions	52	139	2	11	204
Current service cost	(8)	(74)	(1)	(19)	(102)
Past service cost	-	-	-	(3)	(3)
Settlement/curtailment costs	-	6	-	-	6
Other finance income/(charge)	3	6	(1)	(8)	-
Actuarial loss	(62)	(6)	-	(8)	(76)
Exchange rate adjustment	(4)	(12)	-	3	(13)
Deficit at 31 December 2012	(93)	(190)	(28)	(172)	(483)

Standard Chartered Bank

Notes to the financial statements continued

34. Retirement benefit obligations continued

Group continued

	Funded defined benefit schemes		Unfunded schemes		Total \$million
	UK Fund \$million	Overseas schemes \$million	Post- retirement medical \$million	Other \$million	
Year ended 31 December 2011					
Surplus/(deficit) at 1 January 2011	7	(144)	(21)	(139)	(297)
Contributions	10	46	1	20	77
Current service cost	(8)	(74)	(1)	(18)	(101)
Past service cost	(2)	(1)	-	-	(3)
Settlement/curtailment costs	-	6	-	(1)	5
Other finance income/(charge)	1	4	(1)	(8)	(4)
Actuarial loss	(84)	(93)	(7)	(5)	(189)
Exchange rate adjustment	2	7	1	3	13
Deficit at 31 December 2011	(74)	(249)	(28)	(148)	(499)

Movement in pension schemes and post-retirement medical gross assets and obligations during the year comprise:

	Assets \$million	Obligations \$million	Total \$million
Year ended 31 December 2012			
Deficit at 1 January 2012	2,118	(2,617)	(499)
Contributions	204	-	204
Current service cost	-	(102)	(102)
Past service cost	-	(3)	(3)
Settlement/curtailment costs	(72)	78	6
Interest cost	-	(112)	(112)
Expected return on scheme assets	112	-	112
Benefits paid out	(151)	151	-
Actuarial loss	75	(151)	(76)
Exchange rate adjustment	80	(93)	(13)
Deficit at 31 December 2012	2,366	(2,849)	(483)

	Assets \$million	Obligations \$million	Total \$million
Year ended 31 December 2011			
Deficit at 1 January 2011	2,149	(2,446)	(297)
Contributions	77	-	77
Current service cost	-	(101)	(101)
Past service benefit	-	(3)	(3)
Settlement/curtailment costs	(19)	24	5
Interest cost	-	(124)	(124)
Expected return on scheme assets	120	-	120
Benefits paid out	(140)	140	-
Actuarial loss	(58)	(131)	(189)
Exchange rate adjustment	(11)	24	13
Deficit at 31 December 2011	2,118	(2,617)	(499)

Standard Chartered Bank

Notes to the financial statements continued

34. Retirement benefit obligations continued

Company

Retirement benefit obligations comprise:

	2012 \$million	2011 \$million
Defined benefit schemes obligation	352	313
Defined contribution schemes obligation	13	11
Net book amount	365	324

	2012 \$million	2011 \$million
At 1 January	324	193
Exchange translation differences	10	(10)
Charge against profit (net of finance income)	146	142
Change in other comprehensive income	73	116
Net payments	(188)	(117)
At 31 December	365	324

Retirement benefit charge comprises:

	2012 \$million	2011 \$million
Defined benefit schemes	46	48
Defined contribution schemes	100	94
Charge against profit	146	142

UK Fund

See the Group note on the UK Fund on page 172, there are no differences between Group and Company in respect of the Fund.

Overseas Schemes

The principal overseas defined benefit arrangements operated by the Company are in Germany, India and the United States.

All Schemes

The disclosures required under IAS 19 have been calculated by qualified independent actuaries based on the most recent full actuarial valuations updated, where necessary, to 31 December 2012.

Employer contributions to defined benefit plans over 2013 are expected to be \$45 million.

The financial assumptions used at 31 December 2012 were:

	Funded defined benefit schemes			
	UK Fund ¹		Overseas Schemes ²	
	2012 %	2011 %	2012 %	2011 %
Price inflation	3.00	3.10	2.00 – 4.50	2.00 – 4.50
Salary increases	2.30	3.10	3.50 – 6.00	3.50 – 6.00
Pension increases	2.30	2.10	0.00 – 1.75	0.00 – 1.75
Discount rate	4.50	4.80	3.20 – 8.40	4.70 – 8.80

¹ The assumptions for life expectancy for the UK Fund assumes that a male member currently aged 60 will live for 28 years (2011: 26 years) and a female member 29 years (2011: 29 years) and a male member currently aged 40 will live for 30 years (2011: 29 years) and a female member 31 years (2011: 31 years) after their 60th birthday.

² The range of assumptions shown is for the main funded defined benefit overseas schemes in Germany, India, and the United States. These comprise over 80 per cent of the total liabilities of funded overseas schemes.

	Unfunded schemes			
	Post-retirement medical ³		Other ⁴	
	2012 %	2011 %	2012 %	2011 %
Price inflation	2.50	2.50	2.30 – 4.50	2.10 – 4.50
Salary increases	4.00	4.00	2.30 – 6.00	3.10 – 6.00
Pension increases	N/A	N/A	0.00 – 2.30	0.00 – 2.10
Discount rate	4.20	4.70	4.20 – 8.40	4.70 – 8.80
Post-retirement medical rate ¹	9% in 2012 reducing by 1% per annum to 5% in 2016	8% in 2011 reducing by 1% per annum to 5% in 2014	N/A	N/A

³The Post-retirement medical plan is in the United States.

⁴The range of assumptions shown is for the main Unfunded Schemes in India, UAE and the UK.

Standard Chartered Bank

Notes to the financial statements continued

34. Retirement benefit obligations continued

The assets and liabilities of the schemes, attributable to defined benefit members, at 31 December 2012 were:

	Funded defined benefit schemes				Unfunded schemes			
	UK Fund		Overseas schemes		Post-retirement medical		Other	
	Expected return on assets %	Value \$million	Expected return on assets % ¹	Value \$million	Expected return on assets %	Value \$million	Expected return on assets %	Value \$million
At 31 December 2012								
Equities	8.00	382	8.90 – 9.00	61	N/A	N/A	N/A	N/A
Bonds	3.20	1,072	4.50 – 10.00	61	N/A	N/A	N/A	N/A
Property	7.50	58	N/A	28	N/A	N/A	N/A	N/A
Others	8.00	190	7.50 – 10.00	9	N/A	N/A	N/A	N/A
Total market value of assets		1,702		159		N/A		N/A
Present value of the schemes' liabilities		(1,795)		(245)		(28)		(145)
Net pension liability		(93)		(86)		(28)		(145)

¹ IAS 19R removes the impact of expected asset returns on the Income statement. These figures are included here for presentational purposes only and are set at the same level as the 31 December 2011 returns.

	Funded defined benefit schemes				Unfunded schemes			
	UK Fund		Overseas schemes		Post-retirement medical		Other	
	Expected return on assets %	Value \$million	Expected return on assets %	Value \$million	Expected return on assets %	Value \$million	Expected return on assets %	Value \$million
At 31 December 2011								
Equities	8.00	320	8.90 – 9.00	53	N/A	N/A	N/A	N/A
Bonds	3.20	889	4.50 – 10.00	49	N/A	N/A	N/A	N/A
Property	7.50	50	N/A	-	N/A	N/A	N/A	N/A
Others	8.00	276	7.50 – 10.00	35	N/A	N/A	N/A	N/A
Total market value of assets		1,535		137		N/A		N/A
Present value of the schemes' liabilities		(1,609)		(227)		(28)		(121)
Net pension liability		(74)		(90)		(28)		(121)

	Funded defined benefit schemes				Unfunded schemes			
	UK Fund		Overseas schemes		Post-retirement medical		Other	
	Value \$million	Value \$million	Value \$million	Value \$million	Value \$million	Value \$million	Value \$million	
At 31 December 2010								
Total market value of assets	1,552	119			N/A		N/A	
Present value of the schemes' liabilities	(1,545)	(207)			(21)		(108)	
Net pension asset/(liability)	7	(69)			(21)		(108)	

At 31 December 2009							
Total market value of assets	1,478	119			N/A		N/A
Present value of the schemes' liabilities	(1,704)	(174)			(20)		(91)
Net pension liability	(226)	(55)			(20)		(91)

At 31 December 2008							
Total market value of assets	1,232	100			N/A		N/A
Present value of the schemes' liabilities	(1,296)	(140)			(12)		(63)
Net pension liability	(64)	(40)			(12)		(63)

The expected return on plan assets is set by reference to historical returns in each of the main asset classes, current market indicators such as long term bond yields and the expected long term strategic asset allocation of each plan.

Standard Chartered Bank

Notes to the financial statements continued

34. Retirement benefit obligations continued

Company continued

The pension cost for defined benefit schemes was:

	Funded defined benefit schemes		Unfunded schemes		Total \$million
	UK Fund \$million	Overseas schemes \$million	Post- retirement medical \$million	Other \$million	
Year ended 31 December 2012					
Current service cost	8	14	1	16	39
Past service cost	-	-	-	-	-
Expected return on pension scheme assets	(80)	(9)	-	-	(89)
Interest on pension scheme liabilities	77	11	1	7	96
Total charge to profit before deduction of tax	5	16	2	23	46
Gains on assets above expected return ¹	(53)	(4)	-	-	(57)
Experience loss on liabilities	115	7	-	8	130
Total loss recognised directly in statement of comprehensive income before tax	62	3	-	8	73
Deferred taxation	(14)	-	-	-	(14)
Total loss after tax	48	3	-	8	59

¹ The actual return on the UK fund assets was \$133 million and on overseas scheme assets was \$13 million.

The total cumulative amount recognised directly in the statement of comprehensive income before tax to date is a loss of \$286 million (2011: loss of \$213 million).

	Funded defined benefit schemes		Unfunded schemes		Total \$million
	UK Fund \$million	Overseas schemes \$million	Post- retirement medical \$million	Other \$million	
Year ended 31 December 2011					
Current service cost	8	13	1	14	36
Past service cost	2	1	-	-	3
Expected return on pension scheme assets	(86)	(9)	-	-	(95)
Interest on pension scheme liabilities	85	12	1	6	104
Total charge to profit before deduction of tax	9	17	2	20	48
Loss on assets in excess of expected return ²	26	11	-	-	37
Experience loss on liabilities	58	10	7	4	79
Total loss recognised directly in statement of comprehensive income before tax	84	21	7	4	116
Deferred taxation	(11)	(11)	(3)	(1)	(26)
Total loss after tax	73	10	4	3	90

² The actual return on the UK fund assets was a gain of \$60 million and on overseas scheme assets was a loss of \$2 million.

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Notes to the financial statements continued

34. Retirement benefit obligations continued

Company continued

	Funded defined benefit schemes		Unfunded schemes		Total \$million
	UK Fund \$million	Overseas schemes \$million	Post- retirement medical \$million	Other \$million	
Year ended 31 December 2010					
Gain on assets in excess of expected return ³	(42)	(7)	-	-	(49)
Experience (gain)/loss on liabilities	(67)	17	-	11	(39)
Total (gain)/loss recognised directly in statement of comprehensive income before tax	(109)	10	-	11	(88)
Deferred taxation	30	(14)	-	(1)	15
Total (gain)/loss after tax	(79)	(4)	-	10	(73)
Year ending 31 December 2009					
Gain on assets in excess of expected return ⁴	(76)	(9)	-	-	(85)
Experience loss/(gain) on liabilities	236	(7)	-	21	250
Total loss/(gain) recognised directly in statement of comprehensive income before tax	160	(16)	-	21	165
Deferred taxation	(41)	2	-	-	(39)
Total loss/(gain) after tax	119	(14)	-	21	126
Year ended 31 December 2008					
Gain on assets in excess of expected return ⁵	(28)	(2)	-	-	(30)
Experience (gain)/loss on liabilities	(113)	-	2	5	(106)
Total (gain)/loss recognised directly in statement of comprehensive income before tax	(141)	(2)	2	5	(136)
Deferred taxation	44	-	-	1	45
Total (gain)/loss after tax	(97)	(2)	2	6	(91)

³ The actual return on the UK fund assets was \$122 million and on overseas scheme assets was \$48 million.

⁴ The actual return on the UK fund assets was \$159 million and on overseas scheme assets was \$67 million.

⁵ The actual return on the UK fund assets was \$99 million and on overseas scheme assets was \$94 million.

Movement in the pension schemes and post retirement medical deficit during the year comprise:

	Funded defined benefit schemes		Unfunded schemes		Total \$million
	UK Fund \$million	Overseas schemes \$million	Post- retirement medical \$million	Other \$million	
Year ended 31 December 2012					
Deficit at 1 January 2012	(74)	(90)	(28)	(121)	(313)
Contributions	52	25	2	9	88
Current service cost	(8)	(14)	(1)	(16)	(39)
Past service cost	-	-	-	-	-
Other finance income/(charge)	3	(2)	(1)	(7)	(7)
Actuarial loss	(62)	(3)	-	(8)	(73)
Exchange rate adjustment	(4)	(2)	-	(2)	(8)
Deficit at 31 December 2012	(93)	(86)	(28)	(145)	(352)

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Notes to the financial statements continued

34. Retirement benefit obligations continued

Company continued

	Funded defined benefit schemes		Unfunded schemes		Total \$million
	UK Fund \$million	Overseas schemes \$million	Post- retirement medical \$million	Other \$million	
Year ended 31 December 2011					
Surplus/(Deficit) at 1 January 2011	7	(69)	(21)	(108)	(191)
Contributions	10	13	1	8	32
Current service cost	(8)	(13)	(1)	(14)	(36)
Past service cost	(2)	(1)	-	-	(3)
Other finance income/(charge)	1	(3)	(1)	(6)	(9)
Actuarial loss	(84)	(21)	(7)	(4)	(116)
Exchange rate adjustment	2	4	1	3	10
Deficit at 31 December 2011	(74)	(90)	(28)	(121)	(313)

Movement in pension schemes and post-retirement medical gross assets and obligations during the year comprise:

Year ended 31 December 2012	Assets	Obligations	Total
	\$million	\$million	\$million
Deficit at 1 January 2012	1,672	(1,985)	(313)
Contributions	88	-	88
Current service cost	-	(39)	(39)
Past service cost	-	-	-
Interest cost	-	(96)	(96)
Expected return on scheme assets	89	-	89
Benefits paid out	(113)	113	-
Actuarial loss	57	(130)	(73)
Exchange rate adjustment	68	(76)	(8)
Deficit at 31 December 2012	1,861	(2,213)	(352)

Year ended 31 December 2011	Assets	Obligations	Total
	\$million	\$million	\$million
Deficit at 1 January 2011	1,690	(1,881)	(191)
Contributions	32	-	32
Current service cost	-	(36)	(36)
Past service cost	-	(3)	(3)
Interest cost	-	(104)	(104)
Expected return on scheme assets	95	-	95
Benefits paid out	(98)	98	-
Actuarial loss	(37)	(79)	(116)
Exchange rate adjustment	(10)	20	10
Deficit at 31 December 2011	1,672	(1,985)	(313)

Standard Chartered Bank

Notes to the financial statements continued

35. Share capital, reserves and own shares

Share capital

The authorised share capital of the Company at 31 December 2012 was \$15,005 million (2011: \$15,005 million) made up of 15,000 million ordinary shares of \$1 each, 1 million non-cumulative preference shares of \$5 each.

Group and Company

	Number of ordinary shares (millions)	Ordinary share capital \$million	Preference share capital \$million	Total \$million
At 1 January 2011	11,687	11,687	-	11,687
Shares issued	367	367	-	367
At 31 December 2011	12,054	12,054	-	12,054
Shares issued	-	-	-	-
At 31 December 2012	12,054	12,054	-	12,054

During the year the company did not issue any new shares (2011: 367 million shares) to its parent company, Standard Chartered Holdings limited.

Reserves

The capital reserve represents the exchange difference on redenomination of share capital and share premium from sterling to US dollars in 2001.

The capital redemption reserve represents the nominal value of preference shares redeemed.

Available-for-sale reserve represents the unrealised fair value gains and losses in respect of financial assets classified as available-for-sale, net of taxation. Gains and losses are deferred in this reserve and are reclassified to the income statement when the underlying asset is sold, matures or becomes impaired.

Cash flow hedge reserve represents the effective portion of the gains and losses on derivatives that meet the criteria of a cash flow hedge. Gains and losses are deferred in this reserve and are reclassified to the income statement when the underlying hedged item affects profit and loss or when a forecast transaction is no longer expected to occur.

Translation reserve represents the cumulative foreign exchange gains and losses on translation of the net investment of the Group in foreign operations. Since 1 January 2004, gains and losses are deferred to this reserve and are reclassified to the income statement when the underlying foreign operation is disposed. Gains and losses arising from derivatives used as hedges of net investments are netted against the foreign exchange gains and losses on translation of the net investment of the foreign operations.

Retained earnings represents profits and other comprehensive income earned by the Group and Company in the current and prior periods, together with the after tax increase relating to equity-settled share options, less dividend distributions and own shares (treasury shares).

A substantial part of the Group's reserves are held in overseas subsidiary undertakings and branches, principally to support local operations or to comply with local regulations. The maintenance of local regulatory capital ratios could potentially restrict the amount of reserves which can be remitted. In addition, if these overseas reserves were to be remitted, further unprovided taxation liabilities might arise.

36. Non-controlling interests

	\$300m 7.267% Hybrid Tier 1 Securities \$million	Other non-controlling interests \$million	Total \$million
At 1 January 2011	321	2,733	3,054
Income in equity attributable to non-controlling interests	-	(142)	(142)
Other profits attributable to non-controlling interests	22	628	650
Comprehensive income for the year	22	486	508
Distributions	(23)	(414)	(437)
Other increases	-	20	20
At 31 December 2011	320	2,825	3,145
Income in equity attributable to non-controlling interests	-	29	29
Other profits attributable to non-controlling interests	22	633	655
Comprehensive income for the year	22	662	684
Distributions	(22)	(234)	(256)
Other increases	-	8	8
At 31 December 2012	320	3,261	3,581

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Notes to the financial statements continued

37. Share based payments

The Group operates a number of share based arrangements for its directors and employees. Details of the share based payment charge are set out below:

	2012	2011
	\$ million	\$million
Deferred share awards	314	295
Other share awards	59	135
Total charge taken to the income statement	373	430

2011 Standard Chartered Share Plan (the 2011 Plan)

Approved by shareholders in May 2011 this is the Group's main share plan applicable to all employees. The 2011 Plan is designed to deliver performance shares, deferred awards and restricted shares, giving us sufficient flexibility to meet the challenges of the changing regulatory and competitive environment. Discretionary share awards are a key part of both executive directors' and senior management's variable compensation and their significance as a proportion of potential total remuneration is one of the strongest indicators of our commitment to pay for sustainable performance and aligning reward with our risk horizon. The remaining life of the plan is nine years.

Performance shares

Awards vest after a three year period and are subject to three equally weighted (albeit independently assessed) performance measures, Total Shareholder Return ('TSR'), Earnings Per Share ('EPS') and Return on Risk Weighted Assets ('RoRWA'). The fair value of awards is based on the market value less an adjustment for the expected dividends over the vesting period and the relevant performance condition applying to that portion of the award.

Valuation

The fair value of the TSR component is derived by discounting a third of the award by the loss of expected dividends over the performance period together with the probability of meeting the TSR condition, which is calculated by the area under the TSR vesting schedule curve. The EPS fair value is derived by discounting one third of the award respectively by the loss of expected dividends over the performance period. The same approach is applied to calculate the RoRWA fair value for one third of the award. In respect of the EPS and RoRWA components, the number of shares expected to vest is adjusted for actual performance when calculating the share based payment charge for the year. The same fair value applies to all employees including directors.

Grant date	2012				2011			
	21 December	19 September	20 June	13 March	14 December	20 September	22 June	6 May
Share price at grant date (£)	15.84	14.82	14.17	15.65	14.35	13.52	15.75	16.31
Vesting period (years)	3	3	3	3	3	3	3	3
Expected dividend yield (%)	3.7	3.2	3.5	3.5	4.0	4.0	3.7	3.7
Fair value (EPS) (£)	4.73	4.50	4.26	4.71	4.26	4.01	4.70	4.87
Fair value (RoRWA) (£)	4.73	4.50	4.26	4.71	4.26	4.01	4.70	4.87
Fair value (TSR) (£)	1.86	1.77	1.68	1.85	1.67	1.58	1.85	1.91

The expected dividend yield is based on the historical dividend yield over the three years prior to grant.

Deferred share awards / Restricted shares

Deferred awards are used to deliver the deferred portion of annual performance awards, in line with both market practice and the requirements of the FSA. These awards are subject to a three year deferral period, vesting equally one third on each of the first, second and third anniversaries.

Restricted share awards which are made outside of the annual performance process, as additional incentive or retention mechanisms, are provided as restricted shares under the 2011 Plan. These awards typically vest in equal instalments on the second and the third anniversaries of the award date. In a few circumstances some awards vest over a four year period in equal tranches, this is in line with similar plans operated by our competitors.

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Notes to the financial statements continued

37. Share based payments continued

Valuation

The fair value, for all employees including directors, is based on the market value less an adjustment to take into account the expected dividends over the vesting period.

Deferred share awards

Grant date	2012		2011
	20 June	13 March	22 June
Share price at grant date (£)	14.17	15.65	15.75
Vesting period (years)	1/2/3	1/2/3	1/2/3
Expected dividend yield (%)	n/a	n/a	n/a
Fair value (£)	14.17	15.65	15.75

Deferred awards accrue dividend equivalent payments during the vesting period.

Other restricted share awards

Grant date	2012				2011		
	21 December	19 September	20 June	13 March	14 December	20 September	22 June
Share price at grant date (£)	15.84	14.82	14.17	15.65	14.35	13.52	15.75
Vesting period (years)	2/3 1/2/3/4	2/3	2/3	2/3	2/3	2/3	2/3
Expected dividend yield (%)	3.7	3.0	3.8	3.8	2.9	2.9	4.1
Fair value (£)	14.46	13.76	12.91	14.26	13.36	12.59	14.25

The expected dividend yield is based on the historical dividend for two and a half years prior to grant.

2000 Executive Share Option Scheme (2000 ESOS)- now closed to new grants

The Group previously operated the 2000 ESOS for executive directors and selected senior managers. Executive share options to purchase ordinary shares in Standard Chartered PLC were exercisable after the third, but before the tenth, anniversary of the date of grant subject to an EPS performance criteria being satisfied. The exercise price per share is the share price at the date of grant.

2001 Performance Share Plan (PSP)- now closed to new grants

The Group's previous plan for delivering performance shares was the PSP and there remain outstanding vested and unvested awards.

Under the PSP half the award is dependent upon TSR performance and the balance is subject to a target of defined EPS growth. Both measures use the same three-year period and are assessed independently.

1997/2006 Restricted Share Scheme (2006 RSS)/ 2007 Supplementary Restricted Share Scheme (2007 SRSS)

The Group's previous plans for delivering restricted shares were the 2006 RSS and 2007 SRSS both now replaced by the 2011 Plan. There are still unvested and vested awards outstanding under these plans. Awards were generally in the form of nil cost options and did not have any performance conditions. Generally deferred restricted share awards vest equally over three years and for non-deferred awards half vests two years after the date of grant and the balance after three years. No further awards will be granted under the 2006 RSS and 2007 SRSS.

2004 Deferred Bonus Plan (DBP)

Under the DBP, shares are conditionally awarded as part of certain executive directors' annual performance award. Awards under the DBP are made in very limited circumstances to a small number of employees. The remaining life of the plan is two years.

All Employee Sharesave Plan (Sharesave)

Under the Sharesave plans, employees have the choice of opening a three-year savings contract. Within a period of six months after the third or fifth anniversary, as appropriate, employees may purchase ordinary shares in the Company. A discount of up to 20 per cent on the share price at the date of invitation. There are no performance conditions attached to options granted under the Sharesave plans. In some countries in which the Group operates, it is not possible to operate Sharesave plans, typically due to securities law and regulatory restrictions. In these countries the Group offers an equivalent cash-based plan to its employees. The remaining life of the Sharesave plans is two years.

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Notes to the financial statements continued

37. Share based payments continued

Valuation

Options under the Sharesave plans are valued using a binomial option-pricing model. The same fair value is applied to all employees including directors. The fair value per option granted and the assumptions used in the calculation are as follows:

Grant date	2012		2011	
	11 October	1 October	11 October	4 October
Share price at grant date	13.95	14.35	14.11	11.70
Exercise price (£)	11.40	11.40	10.65	10.65
Vesting period (years)	3	3	3/5	3/5
Expected volatility (%)	29.8	30.0	53.8/45.8	53.3/45.5
Expected option life (years)	3.33	3.33	3.33/5.33	3.33/5.33
Risk free rate (%)	0.4	0.4	0.9/1.4	0.7/1.2
Expected dividend yield (%)	3.1	3.1	3.9/3.5	3.9/3.5
Fair value (£)	3.28	3.53	5.46/5.39	3.87/3.87

The expected volatility is based on historical volatility over the last three to five years, or three to five years prior to grant. The expected life is the average expected period to exercise. The risk free rate of return is the yield on zero-coupon UK Government bonds of a term consistent with the assumed option life. The expected dividend yield is based on historical dividend for three years prior to grant. Where two amounts are shown for volatility, risk free rates, expected dividend yield and fair values, the first relates to a three year vesting period and the second to a five year vesting period.

Reconciliation of option movements for the year to 31 December 2012

	2012 Plan ¹							Weighted average exercise price (£)	Sharesave	Weighted average exercise price (£)
	Performance shares	Deferred/ Restricted shares	PSP ¹	RSS ¹	SRSS ¹	DBP ^{1,2}	ESOS			
Outstanding at 1 January	4,159,843	631,525	6,860,767	30,071,548	7,110,450	55,795	958,376	7.10	15,381,639	11.42
Granted	5,116,875	10,268,598	-	364,112	-	70,255	-	-	4,572,789	11.40
Lapsed	(201,051)	(299,723)	(1,657,903)	(937,152)	(103,149)	-	(123,016)	6.33	(2,337,736)	11.64
Exercised	-	(1,450)	(2,981,607)	(12,813,210)	(4,136,454)	(70,255)	(484,316)	6.77	(3,539,744)	10.44
Outstanding at 31 December	9,075,667	10,598,950	2,221,257	16,685,298	2,870,847	55,795	351,044	7.46	14,076,948	11.59
Exercisable at 31 December	-	-	863,644	3,396,479	2,154,834	-	351,044	7.46	1,068,182	10.96
Range of exercise prices (£)	-	-	-	-	-	-	5.82-7.89	-	10.48-11.04	-
Intrinsic value of vested but not exercised options (\$ million)	-	-	2	8	3	-	-	-	-	-
Weighted average contractual remaining life (years)	8.82	6.19	6.57	4.52	4.09	-	1.01	-	2.53	-
Weighted average share price for options exercised during the period (£)	-	14.39	15.59	15.66	15.64	15.97	14.94	-	14.87	-

¹ Employees do not contribute towards the cost of these awards.

² Notes:

a) The market value of shares on date of awards (13 March 2012) was 1,605 pence.

b) The shares vest one year after the date of award.

c) A notional scrip dividend accrues on the shares held in the Trust. The dividend is normally delivered in the form of shares and is released on vesting.

Standard Chartered Bank

Notes to the financial statements continued

37. Share based payments continued

Reconciliation of option movements for the year to 31 December 2011

	2011 Plan ¹						Weighted average exercise price (£)	Sharesave	Weighted average exercise price (£)	
	Performance shares	Deferred/ Restricted shares	PSP ¹	RSS ¹	SRSS ¹	DBP ^{1,2}	ESOS			
Outstanding at 1 January	-	-	9,571,846	24,500,160	13,885,072	383,985	1,386,144	7.01	14,818,577	11.33
Granted	4,195,006	635,136	-	12,500,000	250,000	70,255	-	-	5,927,063	10.65
Lapsed	(35,163)	(3,611)	(1,134,210)	(1,094,879)	(121,192)	-	-	-	(1,777,148)	11.31
Exercised	-	-	(1,576,869)	(5,833,733)	(6,903,430)	(398,445)	(427,768)	6.71	(3,586,853)	9.74
Outstanding at 31 December	4,159,843	631,525	6,860,767	30,071,548	7,110,450	55,795	958,376	7.10	15,381,639	11.42
Exercisable at 31 December	-	-	1,035,851	2,354,817	1,633,368	-	958,376	7.10	1,859,857	9.72
Range of exercise prices (£)	-	-	-	-	-	-	5.82-8.77	-	8.32-14.63	-
Intrinsic value of vested but not exercised options (\$ million)	-	-	9	10	4	-	1	-	7	-
Weighted average contractual remaining life (years)	9.35	6.67	7.18	5.25	4.85	-	1.70	-	2.53	-
Weighted average share price for options exercised during the period (£)	-	-	15.61	15.74	15.76	16.64	15.04	-	14.81	-

¹ Employees do not contribute towards the cost of these awards.

² Notes:

a) The market value of shares on date of awards (8 March 2011) was 1,680 pence.

b) The shares vest one year after the date of award.

c) A notional scrip dividend accrues on the shares held in the Trust. The dividend is normally delivered in the form of shares and is released on vesting.

Standard Chartered Bank

Notes to the financial statements continued

38. Cash flow statement

Adjustment for non-cash items included within income statement

	Group		Company	
	2012	2011	2012	2011
	\$million	\$million	\$million	\$million
Amortisation of discounts and premiums of investment securities	(442)	(173)	(219)	(239)
Interest expense on subordinated liabilities	670	562	250	237
Interest expense on senior debt liabilities	98	581	-	417
Other non - cash income items	(400)	(454)	(255)	(281)
Depreciation and amortisation	687	639	297	287
Pension costs for defined benefit schemes	99	103	46	48
Share based payment costs	374	395	274	307
UK bank levy	10	69	10	69
Impairment losses on loans and advances and other credit risk provisions	1,221	908	546	516
Dividend income from subsidiaries	-	-	(1,237)	(940)
Other impairment	194	111	321	25
Profit from associates	(116)	(74)	-	-
Total	2,395	2,667	33	446

Change in operating assets

	Group		Company	
	2012	2011	2012	2011
	\$million	\$million	\$million	\$million
Decrease/(increase) in derivative financial instruments	9,484	(21,570)	9,454	(22,245)
Net (increase)/decrease in debt securities, treasury bills and equity shares held at fair value through profit or loss	(3,121)	(2,373)	(2,683)	274
Net increase in loans and advances to banks and customers	(19,144)	(38,771)	(15,135)	(26,081)
(Increase)/decrease in pre-payments and accrued income	(34)	(440)	34	(286)
Decrease in other assets	(3,031)	(16,758)	(5,196)	(5,111)
Total	(15,846)	(79,912)	(13,526)	(53,449)

Change in operating liabilities

	Group		Company	
	2012	2011	2012	2011
	\$million	\$million	\$million	\$million
(Decrease)/Increase in derivative financial instruments	(9,325)	20,426	(9,672)	21,112
Net increase in deposits from banks, customer accounts, debt securities in issue and short positions	34,886	56,598	30,946	39,120
Increase/(decrease) in accruals and deferred income	5	239	140	(20)
Increase in amounts due to parents/subsidiaries/other related parties	1,466	1,870	1,691	3,125
Increase in other liabilities	(297)	14,601	2,480	4,860
Total	26,735	93,734	25,585	68,197

Standard Chartered Bank

Notes to the financial statements continued

39. Cash and cash equivalents

For the purposes of the cash flow statement, cash and cash equivalents comprise the following balances with less than three months maturity from the date of acquisition. Restricted balances comprise minimum balances required to be held at central banks.

	Group		Company	
	2012 \$million	2011 \$million	2012 \$million	2011 \$million
Cash and balances at central banks	61,043	47,364	49,655	36,268
Less restricted balances	(9,336)	(9,961)	(4,629)	(4,673)
Treasury bills and other eligible bills	3,101	3,244	1,062	1,031
Loans and advances to banks	24,485	27,470	13,914	14,080
Trading securities	1,307	2,333	663	160
Total	80,600	70,450	60,665	46,866

40. Capital commitments

Capital expenditure approved by the directors but not provided for in these accounts amounted to:

	Group		Company	
	2012 \$million	2011 \$million	2012 \$million	2011 \$million
Contracted	51	9	-	1

41. Operating lease commitments

Group

	2012		2011	
	Premises \$million	Equipment \$million	Premises \$million	Equipment \$million
Commitments under non-cancellable operating leases expiring:				
Within one year	336	4	290	2
Later than one year and less than five years	755	5	637	2
After five years	806	-	479	-
	1,897	9	1,406	4

During the year \$443 million (2011: \$393 million) was recognised as an expense in the income statement in respect of operating leases. The Group leases various premises and equipment under non-cancellable operating lease agreements. The leases have various terms, escalation clauses and renewal rights. The total future minimum sublease payments expected to be received under non-cancellable subleases at 31 December 2012 is \$6 million (2011:\$2 million).

Company

	2012		2011	
	Premises \$million	Equipment \$million	Premises \$million	Equipment \$million
Commitments under non-cancellable operating leases expiring:				
Within one year	112	1	84	1
Later than one year and less than five years	385	1	245	-
After five years	628	-	277	-
	1,125	2	606	1

During the year \$186 million (2011: \$151 million) was recognised as an expense in the income statement in respect of operating leases. The Company leases various premises and equipment under non-cancellable operating lease agreements. The leases have various terms, escalation clauses and renewal rights. The total future minimum sublease payments expected to be received under non-cancellable subleases at 31 December 2012 are \$nil million (2011: \$nil million).

Standard Chartered Bank

Notes to the financial statements continued

42. Contingent liabilities and commitments

The table below shows the contract or underlying principal amounts of unmatured off-balance sheet transactions at the balance sheet date. The contract or underlying principal amounts indicate the volume of business outstanding and do not represent amounts at risk.

Group

	2012	2011
	Contract or underlying principal amount \$million	Contract or underlying principal amount \$million
Contingent liabilities¹		
Guarantees and irrevocable letters of credit	34,281	27,022
Other contingent liabilities	10,168	15,858
	44,449	42,880
Commitments¹		
Documentary credits and short term trade-related transactions	7,752	8,612
Forward asset purchases and forward deposits placed	711	733
Undrawn formal standby facilities, credit lines and other commitments to lend:		
One year and over	39,309	28,507
Less than one year	17,388	24,193
Unconditionally cancellable	110,138	88,652
	175,298	150,697

¹ Includes amounts relating to the Group's share of its joint ventures.

Company

	2012	2011
	Contract or underlying principal amount \$million	Contract or underlying principal amount \$million
Contingent liabilities		
Guarantees and irrevocable letters of credit	25,089	17,515
Other contingent liabilities	9,159	14,572
	34,248	32,087
Commitments		
Documentary credits and short term trade-related transactions	4,808	5,759
Undrawn formal standby facilities, credit lines and other commitments to lend:		
One year and over	27,985	21,579
Less than one year	5,375	5,789
Unconditionally cancellable	60,231	52,537 ^a
	98,399	85,664

Contingent liabilities

Where the Group undertakes to make a payment on behalf of its customers for guarantees issued such as for performance bonds or as irrevocable letters of credit as part of the Group's transaction banking business for which an obligation to make a payment has not arisen at the reporting date those are included in these financial statements as contingent liabilities.

Other contingent liabilities primarily include revocable letters of credit and bonds issued on behalf of customers to customs officials, for bids or offers and as shipping guarantees.

The Group receives legal claims against it in a number of jurisdictions arising in the normal course of business. The Group considers none of these matters as material either individually or in aggregate. Where appropriate the Group recognises a provision for liabilities when it is probable that an outflow of economic resources embodying economic benefits will be required and for which a reliable estimate can be made of the obligation (see note 33).

The Group seeks to comply with all applicable laws and regulations but maybe subject to regulatory actions and investigations across our markets, the outcome of which are generally difficult to predict and can be material to the Group.

Commitments

Where the Group has confirmed its intention to provide funds to a customer or on behalf of a customer in the form of loans, overdrafts, future guarantees whether cancellable or not or letters of credit and the Group has not made payments at the balance sheet date, those instruments are included in these financial statements as commitments.

Standard Chartered Bank

Notes to the financial statements continued

43. Special purpose entities

The Group uses Special Purpose Entities (SPEs) in the normal course of business across a variety of activities. SPEs are established for specific limited purposes and take a number of legal forms. The main types of activities for which the Group utilises SPEs cover synthetic credit default swaps for portfolio management purposes, managed investment funds (including specialised principal finance funds) and structured finance.

SPEs are only consolidated when the Group has control of the SPE. Control is assessed based on the Group's exposure to the majority of the risks of the SPE and the right to obtain the majority of the benefits of the SPE. The assessment of risks and benefits is based on the assessed risk exposures at inception and these risks and benefits are re-considered if and when circumstances change. These circumstances may include situations when the Group acquires additional interests in the SPE, or the Group acquires control of the financial and operating policies of the SPE.

Most of the Group's consolidated SPEs are in respect of the Group's securitised portfolios of residential mortgages (see page 23 of the Risk review).

The total assets of unconsolidated SPEs in which the Group has an interest are set out below.

	2012		2011	
	Total assets \$million	Maximum exposure \$million	Total assets \$million	Maximum exposure \$million
Portfolio management vehicles	1,267	44	1,136	130
Principal Finance Funds ¹	766	181	1,089	131
Structured finance	464	103	291	99
	2,497	328	2,516	360

¹ Committed capital for these funds is \$375 million (2011: \$375 million) of which \$145 million (2011: \$129 million) has been drawn down net of provisions for impairment of \$33 million (2011: \$33 million).

For the purposes of portfolio management, the Group has entered into synthetic credit default swaps with note-issuing SPEs. The referenced assets remain on the Group's balance sheet as the credit risk is not transferred to these SPEs. The Group continues to own or hold all of the risks and returns relating to these assets and the credit protection afforded by the synthetic securitisation only serves to protect the Group against losses upon the occurrence of certain credit events, the assets are not de-recognised from the Group balance sheet. The Group's exposure arises from (a) the capitalised start-up costs in respect of the swap vehicles and (b) interest in the first loss notes and investment in a minimal portion of the mezzanine and senior rated notes issued by the note issuing SPEs. The proceeds of the notes issuance are typically invested in AAA-rated Government securities, which are used to collateralise the SPE's swap obligations to the Group, and to repay the principal to investors at maturity. The SPEs reimburse the Group on actual losses incurred, through the realisation of the collateral security. Correspondingly, the SPEs write down the notes issued by an equal amount of the losses incurred, in reverse order of seniority. All the funding is committed for the life of these vehicles and hence the Group has no indirect exposure in respect of the vehicles' liquidity position.

The Group's exposure to Principal Finance Funds represents committed or invested capital in unleveraged investment funds, primarily investing in pan-Asian infrastructure and real estate.

Structured finance comprises interests in transactions that the Group or, more usually, a customer has structured, using one or more SPEs, which provide beneficial arrangements for customers. The Group's exposure primarily represents the provision of funding to these structures as a financial intermediary, for which it receives a lender's return. The transactions largely relate to the provision of aircraft leasing and ship finance.

The Group has reputational risk in respect of certain portfolio management vehicles and investment funds either because the Group is the arranger and lead manager or because the SPEs have Standard Chartered branding.

44. Post balance sheet events

Tax

On 5 December 2012, the UK government announced a further reduction in the main rate of UK corporation tax of one per cent with effect from 1 April 2014, in addition to the stepped reductions as previously announced. The combined effect of the reductions is to lower the main rate of UK corporation tax to 24 per cent in 2012-13, to 23 per cent in 2013-14, and 21 per cent in 2014-15.

At 31 December 2012, only the further tax rate change for 2013-14 to 23 per cent had been substantively enacted. Had the further rate change for 2014-15 been substantively enacted at the balance sheet date, the Group estimates that the UK deferred tax assets would have reduced by a further \$24 million.

Standard Chartered Bank

Notes to the financial statements continued

45 Assets and Liabilities classified as held for sale

It is the intention that the Consumer Banking operations of the Company's Singapore branch of the Company be transferred into another Group subsidiary company during 2013. Accordingly the business has been classified as a disposal group and classified as assets and liabilities held for sale. The disposal group comprises total assets and liabilities as follows:

	2012 Smillion
Cash	600
Loans and advances to customers	21,300
Investment securities	3,700
Total assets	25,600
Customer accounts	24,900
Other liabilities	500
Total liabilities	25,400

¹ Excludes interbranch asset balance of \$700 million

46. Restatement of prior year

The Group has re-presented certain balances in the consolidated balance sheet and entity-wide geographic disclosures to reflect the effect of enhanced system capabilities introduced during the year. The Group has also re-presented the entity-wide geographic disclosure following the transfer of the governance of its franchise in Mauritius from Other Asia Pacific to Africa to align with Group's overall strategy in Africa. The impact of these changes has required: (i) gross up of loans and advances to customers (Mortgages) and customer deposit accounts (Interest-bearing current accounts) for items that were previously recorded net; (ii) netting of certain Interest rate derivatives which were previously shown gross; and (iii) change of the Group's entity-wide geographic disclosures to reflect the transfer of Mauritius from Other Asia Pacific to Africa. For consistency, comparative balances have also been re-presented on a similar basis to enhance the comparability of information presented.

Group

Balance sheet

	As reported at 2011 \$million	Restated \$million	Restated at 2011 \$million
Loans and advances to customers	263,765	3,025	266,790
Customer accounts	342,701	3,025	345,726
Derivative assets	67,976	(9,409)	58,567
Derivative liabilities	66,527	(9,409)	57,118
Total assets	598,635	(6,384)	592,251
Total liabilities	563,185	(6,384)	556,801

Standard Chartered Bank

Notes to the financial statements continued

46. Restatement of prior year continued

Entity-wide geographic regions

Note 2 - Segmental information

	Hong Kong \$million	Singapore \$million	Other Asia Pacific \$million	India \$million	Africa \$million	Americas UK & Europe \$million
Loans and advances to customers						
As reported at 2011	50,541	42,574	54,196	23,379	10,004	-
Mortgage restatement	455	1,253	1,010	307	-	-
Mauritius geographic region change	-	-	(1,227)	-	1,227	-
Restated at 2011	50,996	43,827	53,979	23,686	11,231	-

Total assets employed

As reported at 2011	118,390	102,701	115,513	42,270	17,264	158,985
Mortgage restatement	455	1,253	1,010	307	-	-
Derivative restatement	-	-	-	-	-	(9,409)
Mauritius geographic region change	-	-	(3,127)	-	3,127	-
Restated at 2011	118,845	103,954	113,396	42,577	20,391	149,576

Customer accounts (Current accounts)

As reported at 2011	87,253	63,053	70,657	12,757	8,835	-
Deposit restatement	455	1,253	1,010	307	-	-
Mauritius geographic region change	-	-	(670)	-	670	-
Restated at 2011	87,708	64,306	70,997	13,064	9,505	-

Deposit by banks

As reported at 2011	-	-	5,881	-	532	-
Mauritius geographic region change	-	-	(37)	-	37	-
Restated at 2011	-	-	5,844	-	569	-

	Other Asia Pacific			Africa Region		
	As reported at 2011 \$million	Restated \$million	As restated at 2011 \$million	As reported at 2011 \$million	Restated \$million	As restated at 2011 \$million
Operating income	3,564	(42)	3,522	1,343	42	1,385
Operating expenses	(2,088)	11	(2,077)	(708)	(11)	(719)
Loan impairment	(134)	(1)	(135)	(25)	1	(24)
Other impairment	31	-	31	(16)	-	(16)
Profit from associates	73	-	73	-	-	-
Profit before tax	1,446	(32)	1,414	594	32	626

Loans and advances to customers - Risk review disclosure

As reported at 2011	50,459	47,535	51,835	10,846	6,068	-
Mortgage restatement	455	1,253	1,010	307	-	-
Mauritius segmental change	-	-	(1,227)	-	1,227	-
Restated at 2011	50,914	48,788	51,618	11,153	7,295	-

Standard Chartered Bank

Notes to the financial statements continued

46. Restatement of prior year continued

Company

Balance sheet

	As reported at 2011	Restated	Restated at 2011
	\$million	\$million	\$million
Loans and advances to customers	121,713	1,560	123,273
Customer accounts	149,212	1,560	150,772
Derivatives assets	66,338	(9,409)	56,929
Derivatives liabilities	65,112	(9,409)	55,703
Total assets	363,947	(7,849)	356,098
Total liabilities	340,893	(7,849)	333,044

Entity-wide geographic regions

	Singapore \$million	India \$million
Loans and advances to customers		
As reported at 2011	47,536	10,543
Mortgage restatement	1,253	307
Restated at 2011	48,789	10,850
Customer accounts		
As reported at 2011	63,053	12,298
Deposit restatement	1,253	307
Restated at 2011	64,306	12,605

Standard Chartered Bank

Notes to the financial statements continued

47. Related party transactions

The ultimate parent company of the Group is Standard Chartered PLC, a company registered in England and Wales, and the immediate parent company is Standard Chartered Holdings Limited. The consolidated financial statements of Standard Chartered PLC are available at the registered address located at 1 Aldermanbury Square, London, EC2V 7SB, England.

Directors and officers

Details of directors' remuneration and interests in shares are disclosed in note 14 on Remuneration of Directors.

IAS 24 'Related party disclosures' requires the following additional information for key management compensation. Key management comprises non-executive directors of Standard Chartered PLC and members of the Group Management Committee (from January 2013, the Executive Management Committee), which includes all directors of Standard Chartered Bank.

	2012	2011
	\$million	\$million
Salaries, allowances and benefits in kind	21	19
Pension contributions	5	5
Bonuses paid or receivable	10	11
Share based payments	35	39
	71	74

Transactions with directors, officers and others

At 31 December 2012, the total amounts to be disclosed under the Companies Act 2006 (the Act) about loans to directors and officers were as follows:

	2012		2011	
	Number	\$000	Number	\$000
Directors	4	4,898	3	5,594
Officers ¹	1	18	1	20

¹ For this disclosure, the term 'Officers' means the members of the Group Management Committee, other than those who are directors of Standard Chartered PLC, and the Company Secretary.

Other than as disclosed in the Directors' Report and these financial statements, there were no other transactions, arrangements or agreements outstanding for any director, connected person or officer of the Company which have to be disclosed under the Act.

Group

	2012				2011			
	Due from/to subsidiary undertakings and other related parties \$million	Derivatives \$million	Subordinated liabilities and other borrowed funds \$million	Accruals \$million	Due from/to subsidiary undertakings and other related parties \$million	Derivatives \$million	Subordinated liabilities and other borrowed funds \$million	Accruals \$million
Assets								
Ultimate parent company	23	-	-	-	39	43	-	-
Fellow subsidiaries of								
Joint ventures	18	-	-	-	7	-	-	-
	41	-	-	-	46	43	-	-
Liabilities								
Ultimate parent company	14,717	1,002	288	76	13,600	601	505	45
Fellow subsidiaries of								
SC PLC Group	303	-	-	-	-	-	-	-
Joint ventures	23	-	-	-	29	-	-	-
	15,043	1,002	288	76	13,629	601	505	45

	2012		2011	
	Interest expense \$million	Dividend expense \$million	Interest expense \$million	Dividend expense \$million
Ultimate parent company	510	1,372	318	1,118
	510	1,372	318	1,118

Standard Chartered Bank

Notes to the financial statements continued

47. Related party transactions continued

Group continued

Several inter-company balances were settled in cash during the year. The asset due from the ultimate parent company relates to the partial rebate of the license value as explained below.

In 2006, SC PLC licensed intellectual property rights related to its main brands to a wholly owned subsidiary of the Company, Standard Chartered Strategic Brand Management ('SCSBM'). In 2009, SC PLC transferred part of the intellectual property rights to the Company for \$1. The intangible asset is held on SCSBM's and the Company's balance sheet and amortised to the income statement over the term of the licence. At 31 December 2012 \$54 million (2011: \$72 million) has been included as intangible asset in the Group's balance sheet in relation to this licence.

The Group contributes to employee pension funds and provides banking services free of charge to the UK fund. For details of the funds see note 34.

The Group's employees participate in the Standard Chartered PLC group's share based compensation plans (see note 37). The cost of the compensation is recharged from SC PLC to the Group's branches and subsidiaries.

Joint ventures

The Group has loans and advances to PT Bank Permata Tbk totalling \$18 million at 31 December 2012 (2011: \$7 million), and deposits of \$23 million (2011: \$29 million). The Group has investments in subordinated debt issued by PT Bank Permata Tbk of \$128 million (2011: \$132 million).

Associates

The Group has loans and advances to Merchant Solutions and China Bohai Bank totalling \$29 million and \$32 million respectively at 31 December 2012 (2011: \$39 million and \$172 million respectively) and amounts payable to Merchant Solutions and China Bohai Bank of \$21 million and \$16 million respectively at 31 December 2012 (2011: \$30 million and \$10 million respectively).

Company

	2012				2011			
	Due from/to subsidiary undertakings and other related parties	Derivatives	Subordinated liabilities and other borrowed funds	Accruals	Due from/to subsidiary undertakings and other related parties	Derivatives	Subordinated liabilities and other borrowed funds	Accruals
	\$million	\$million	\$million	\$million	\$million	\$million	\$million	\$million
Assets								
Ultimate parent company	23	-	-	-	39	43	-	-
Subsidiaries and fellow subsidiaries of SC PLC Group	17,933	3,752	-	58	16,490	4,570	-	45
Joint ventures	18	-	-	-	7	-	-	-
	17,974	3,752	-	58	16,536	4,613	-	45
Ultimate parent company	14,717	1,002	288	76	13,600	601	505	45
Subsidiaries and fellow subsidiaries of SC PLC Group	24,387	3,233	-	45	36,014	4,463	-	61
Joint ventures	23	-	-	-	29	-	-	-
	39,127	4,235	288	121	49,643	5,064	505	106

Standard Chartered Bank

Notes to the financial statements continued

47. Related party transactions continued

Company continued

	2012					
	Fees and commission income	Fees and commission expense	Interest income	Interest expense	Dividend income	Dividend expense
	\$million	\$million	\$million	\$million	\$million	\$million
Ultimate parent company	-	-	-	510	-	-
Subsidiaries and fellow subsidiaries of SC PLC Group	115	135	146	91	-	-
Joint ventures	-	-	5	-	-	-
	115	135	151	601	-	-

	2011					
	Fees and commission income	Fees and commission expense	Interest income	Interest expense	Dividend income	Dividend expense
	\$million	\$million	\$million	\$million	\$million	\$million
Ultimate parent company	-	-	-	318	-	-
Subsidiaries and fellow subsidiaries of SC PLC Group	121	471	74	373	-	-
Joint ventures	-	-	-	-	-	-
	121	471	74	691	-	-

As at 31 December 2012, the Company had created a charge over \$43 million (2011: \$42 million) of cash assets in favour of the independent trustee of its employer financed retirement benefit scheme.

The Company has provided a letter of support to its subsidiary undertaking Standard Chartered Overseas Holdings Limited.

The Company contributes to employee pension funds and provides banking services free of charge to the UK fund. For details of the funds see note 34.

In the normal course of business the Company has guaranteed credit risk on credit exposures to customers of certain subsidiaries of \$nil million (2011: \$2 million).

The Company has entered into risk participation agreements with its subsidiary undertakings which transferred exposures of \$379 million (2011: \$658 million).

As at 31 December 2012 the Company holds debt securities issued by subsidiary undertakings of \$762 million (2011: \$638 million) and has issued debt securities to subsidiary undertakings of \$0.1 million (2011: \$2 million).

The Company's employees participate in the Standard Chartered PLC group's share based compensation plans (see notes 1 and 37).

The Company has an agreement with Standard Chartered PLC that in the event of the Company defaulting on its debt coupon interest payments, where the terms of such debt requires it, Standard Chartered PLC shall issue shares as settlement for non-payment of the coupon interest.

Joint ventures

The Company has loans and advances to PT Bank Permata Tbk totalling \$18 million at 31 December 2012 (2011: \$7 million), and deposits of \$23 million (2011: \$29 million).

Standard Chartered Bank

Glossary

Advances-to-deposits ratio	The ratio of total loans and advances to customers relative to total customer deposits. A low advances-to-deposits ratio demonstrates that customer deposits exceed customer loans resulting from emphasis placed on generating a high level of stable funding from customers.
Asset Backed Securities (ABS)	Securities that represent an interest in an underlying pool of referenced assets. The referenced pool can comprise any assets which attract a set of associated cash flows but are commonly pools of residential or commercial mortgages and in the case of Collateralised Debt Obligation (CDOs) , the reference pool may be ABS.
Advanced Internal Rating Based (AIRB) approach	The AIRB approach under the Basel II framework is used to calculate credit risk capital based on the Group's own estimates of certain parameters.
Attributable profit to ordinary shareholders	Profit for the year after non-controlling interests and the declaration of dividends on preference shares classified as equity.
Basel II	The capital adequacy framework issued by the Basel Committee on Banking Supervision (BCBS) in June 2006 in the form of the 'International Convergence of Capital Measurement and Capital Standards'.
Basel III	In December 2010, the BCBS issued the Basel III rules text, which presents the details of strengthened global regulatory standards on bank capital adequacy and liquidity. The new requirements are being phased from 1 January 2013 with full implementation by 31 December 2019.
Basis point	One hundredth of a per cent (0.01 per cent); 100 basis points is 1 per cent. Used in quoting movements in interest rates or yields on securities.
CAD2	An amendment to Capital Adequacy Directive that gives national regulators the discretion to permit firms to use their own value at risk model for calculating capital requirements subject to certain criteria.
Collateralised Debt Obligations (CDOs)	Securities issued by a third party which reference ABSs and/or certain other related assets purchased by the issuer. CDOs may feature exposure to sub-prime mortgage assets through the underlying assets.
Collateralised Loan Obligation (CLO)	A security backed by the repayments from a pool of commercial loans. The payments may be made to different classes of owners (in tranches).
Collectively assessed loan impairment provisions	Also known as portfolio impairment provisions. Impairment assessment on a collective basis for homogeneous groups of loans that are not considered individually significant and to cover losses which have been incurred but have not yet been identified at the balance sheet date. Typically assets within the Consumer Banking business are assessed on a portfolio basis.
Commercial Mortgage Backed Securities (CMBS)	Securities that represent interests in a pool of commercial mortgages. Investors in these securities have the right to cash received from future mortgage payments (interest and/or principal).
Commercial Paper (CP)	An unsecured promissory note issued to finance short-term credit needs. It specifies the face amount paid to investors on the maturity date.
Commercial real estate	Includes office buildings, industrial property, medical centres, hotels, malls, retail stores, shopping centres, farm land, multifamily housing buildings, warehouses, garages, and industrial properties. Commercial real estate loans are those backed by a package of commercial real estate assets.
Constant currency	Constant currency change is derived by applying a simple translation of the previous period functional currency number in each entity using the current average and period end US dollar exchange rates to the income statement and balance sheet respectively.
Contractual maturity	Contractual maturity refers to the final payment date of a loan or other financial instrument, at which point all the remaining outstanding principal will be repaid and interest is due to be paid.
Core Tier 1 Capital	Core Tier 1 capital comprises called-up ordinary share capital and eligible reserves plus non-controlling interests, less goodwill and other intangible assets and deductions relating to excess expected losses over eligible provisions and securitisation positions as specified by the UK's Financial Services Authority (FSA).
Core Tier 1 Capital ratio	Core Tier 1 capital as a percentage of risk weighted assets.
Cost to income ratio	Represents the proportion of total operating expense to total operating income.
Cover ratio	Represents the extent to which non-performing loans are covered by impairment allowances .
Credit Conversion Factor (CCF)	CCF is an internally modelled parameter based on historical experience to determine the amount that is expected to be further drawn down from the undrawn portion in a committed facility.
Credit Default Swaps (CDSs)	A credit derivative is an arrangement whereby the credit risk of an asset (the reference asset) is transferred from the buyer to the seller of protection. A credit default swap is a contract where the protection seller receives premium or interest-related payments in return for contracting to make payments to the protection buyer upon a defined credit event. Credit events normally include bankruptcy, payment default on a reference asset or assets, or downgrades by a rating agency.

Standard Chartered Bank

Glossary continued

Credit risk spread	The credit spread is the yield spread between securities with the same coupon rate and maturity structure but with different associated credit risks, with the yield spread rising as the credit rating worsens. It is the premium over the benchmark or risk-free rate required by the market to take on a lower credit quality.
Credit valuation adjustments (CVA)	An adjustment to fair value primarily in respect of derivative contracts that reflects the possibility that the counterparty may default such that the Group would not receive the full market value of the transactions.
Customer deposits	Money deposited by all individuals and companies which are not credit institutions. Such funds are recorded as liabilities in the Group's balance sheet under Customer accounts.
Debt restructuring	This is when the terms and provisions of outstanding debt agreements are changed. This is often done in order to improve cash flow and the ability of the borrower to repay the debt. It can involve altering the repayment schedule as well as debt or interest charge reduction.
Debt securities	Debt securities are assets on the Group's balance sheet and represent certificates of indebtedness of credit institutions, public bodies or other undertakings excluding those issued by central banks.
Debt securities in issue	Debt securities in issue are transferrable certificates of indebtedness of the Group to the bearer of the certificate. These are liabilities of the Group and include certificates of deposits.
Delinquency	A debt or other financial obligation is considered to be in a state of delinquency when payments are overdue. Loans and advances are considered to be delinquent when consecutive payments are missed. Also known as 'Arrears'.
Dividend per share	Represents the entitlement of each shareholder in the share of the profits of the company. Calculated in the lowest unit of currency in which the shares are quoted.
Effective tax rate (ETR)	The tax on profits on ordinary activities as a percentage of profit on ordinary activities before taxation.
Expected loss (EL)	The Group measure of anticipated loss for exposures captured under an internal ratings based credit risk approach for capital adequacy calculations. It is measured as the Group-modelled view of anticipated loss based on Probability of Default (PD) , Loss Given Default (LGD) and Exposure at Default (EAD) , with a one-year time horizon.
Exposures	Credit exposures represent the amount lent to a customer, together with an undrawn commitments.
Exposure at default (EAD)	The estimation of the extent to which the Group may be exposed to a customer or counterparty in the event of, and at the time of, that counterparty's default. At default, the customer may not have drawn the loan fully or may already have repaid some of the principal, so that exposure is typically less than the approved loan limit.
Forbearance	Arrangements initiated by customers, the Group or third parties to assist customers in financial difficulty where the Group agrees to accept less than the contractual amount due where financial distress would otherwise prevent satisfactory repayment within the original terms and conditions of the contract. Such arrangements include extended payment terms, a reduction in interest or principal repayments, approved external debt management plans, debt consolidations, the deferral of foreclosures, and loan restructurings.
Foundation Internal Ratings Based Approach	A method of calculating credit risk capital requirements using internal PD models but with supervisory estimates of LGD and conversion factors for the calculation of EAD .
Funded/unfunded exposures	Exposures where the notional amount of the transaction is funded or unfunded. Represents exposures where there is a commitment to provide future funding is made but funds have been released / not released.
Guaranteed mortgages	Mortgages for which there is a guarantor to provide the lender a certain level of financial security in the event of default of the borrower.
Impaired loans	Loans where individual identified impairment provisions have been raised and also include loans which are collateralised or where indebtedness has already been written down to the expected realisable value. The impaired loan category may include loans, which, while impaired, are still performing.
Impairment allowances	Impairment allowances are a provision held on the balance sheet as a result of the raising of a charge against profit for the incurred loss. An impairment allowance may either be identified or unidentified and individual (specific) or collective (portfolio).
Individually assessed loan impairment provisions	Also known as specific impairment provisions. Impairment is measured individually for assets that are individually significant to the Group. Typically assets within the Wholesale Banking business of the Group are assessed individually.
Innovative Tier 1 Capital	Innovative Tier 1 Capital consists of instruments which incorporate certain features, the effect of which is to weaken (but only marginally) the key characteristics of Tier 1 Capital (that is fully subordinated, perpetual and non-cumulative). Innovative Tier 1 Capital is subject to a limit of 15 per cent of total Tier 1 Capital.
Internal Ratings Based (IRB) approach	The IRB approach is used to calculate risk weighted assets in accordance with the Basel Capital Accord where capital requirements are based on a firm's own estimates of certain parameters.

Standard Chartered Bank

Glossary continued

Investment grade	A debt security , treasury bill or similar instrument with a credit rating measured by external agencies of AAA to BBB.
Jaws	The rate of income growth less the rate of expense growth, expressed as positive jaws when income growth exceeds expense growth (and vice versa for negative jaws).
Leveraged finance	Loans or other financing agreements provided to companies whose overall level of debt is high in relation to their cash flow (net debt : EBITDA (earnings before interest tax, depreciation and amortisation)) typically arising from private equity sponsor led acquisitions of the businesses concerned.
Liquidity and credit enhancements	Credit enhancement facilities are used to enhance the creditworthiness of financial obligations and cover losses due to asset default. Two general types of credit enhancement are third-party loan guarantees and self-enhancement through over-collateralisation. Liquidity enhancement makes funds available if required, for other reasons than asset default, e.g. to ensure timely repayment of maturing commercial paper .
Liquid asset buffer	High quality unencumbered assets that meet the UK FSA's requirements for liquidity. These assets include high quality government or central bank securities, certain deposits with central banks and securities issued by designated multilateral development banks.
Liquid asset ratio	Ratio of total liquid assets to total assets. Liquid assets comprise cash (less restricted balances), net interbank, treasury bills and debt securities less illiquid securities.
Loans and advances	This represents lending made under bilateral agreements with customers entered into in the normal course of business and is based on the legal form of the instrument. An example of a loan product is a home loan.
Loans to individuals	Money loaned to individuals rather than institutions. The loans may be for car or home purchases, medical care, home repair, holidays, and other consumer uses.
Loan-to-value ratio	The loan-to-value ratio is a mathematical calculation which expresses the amount of a first mortgage lien as a percentage of the total appraised value of real property. The loan-to-value ratio is used in determining the appropriate level of risk for the loan and therefore the correct price of the loan to the borrower.
Loans past due	Loans on which payments have been due for up to a maximum of 90 days including those on which partial payments are being made.
Loss given default (LGD)	LGD is the percentage of an exposure that a lender expects to lose in the event of obligor default.
Master netting agreement	An agreement between two counterparties that have multiple derivative contracts with each other that provides for the net settlement of all contracts through a single payment, in a single currency, in the event of default on, or termination of, any one contract.
Mezzanine capital	Financing that combines debt and equity characteristics. For example, a loan that also confers some profit participation to the lender.
Mortgage Backed Securities (MBS)	Securities that represent interests in a group of mortgages. Investors in these securities have the right to cash received from future mortgage payments (interest and/or principal).
Mortgage related assets	Assets which are referenced to underlying mortgages.
Medium term notes (MTNs)	Corporate notes continuously offered by a company to investors through a dealer. Investors can choose from differing maturities, ranging from nine months to 30 years.
Net asset value per share	Ratio of net assets (total assets less total liabilities) to the number of ordinary shares outstanding at the end of a reporting period.
Net interest income	The difference between interest received on assets and interest paid on liabilities.
Net interest margin	The margin is expressed as net interest income divided by average interest earning assets.
Net interest yield	Interest income divided by average interest earning assets less interest expense divided by average interest bearing liabilities.
Non-performing loans	A non performing loan is any loan that is more than 90 days past due or is otherwise individually impaired, other than a loan which is: <ul style="list-style-type: none">– renegotiated before 90 days past due, and on which no default in interest payments or loss of principal is expected; or– renegotiated at or after 90 days past due, but on which there has been no default in interest or principal payments for more than 180 days since renegotiation, and against which no loss of principal is expected.
Normalised earnings	Profit attributable to ordinary shareholders adjusted for profits or losses of a capital nature; amounts consequent to investment transactions driven by strategic intent; and other infrequent and/or exceptional transactions that are significant or material in the context of the Group's normal business earnings for the period.

Standard Chartered Bank

Glossary continued

Over the counter (OTC) derivatives	A bilateral transaction (e.g. derivatives) that is not exchange traded and that is valued using valuation models.
Pre-provision profit	Operating profit before impairment losses and taxation.
Private equity investments	Equity securities in operating companies <i>generally</i> not quoted on a public exchange. Investment in private equity often involves the investment of capital in private companies. Capital for private equity investment is raised by retail or institutional investors and used to fund investment strategies such as leveraged buyouts, venture capital, growth capital, distressed investments and mezzanine capital.
Probability of default (PD)	PD is an internal estimate for each borrower grade of the likelihood that an obligor will default on an obligation.
Profit attributable to ordinary shareholders	Profit for the year after non-controlling interests and dividends declared in respect of preference shares classified as equity.
Renegotiated loans	Loans and advances are generally renegotiated either as part of an ongoing customer relationship or in response to an adverse change in the circumstances of the borrower. In the latter case renegotiation can result in an extension of the due date of payment or repayment plans under which the Group offers a concessionary rate of interest to genuinely distressed borrowers. Such assets will be individually impaired where the renegotiated payments of interest and principal will not recover the original carrying amount of the asset. In other cases, renegotiation may lead to a new agreement, which would be treated as a new loan.
Repo/Reverse repo	A repurchase agreement or repo is a short term funding agreements which allow a borrower to sell a financial asset, such as ABS or Government bonds as collateral for cash. As part of the agreement the borrower agrees to repurchase the security at some later date, usually less than 30 days, repaying the proceeds of the loan. For the party on the other end of the transaction (buying the security and agreeing to sell in the future) it is a reverse repurchase agreement or reverse repo.
Residential mortgage	A loan to purchase a residential property which is then used as collateral to guarantee repayment of the loan. The borrower gives the lender a lien against the property, and the lender can foreclose on the property if the borrower does not repay the loan per the agreed terms. Also known as a Home loan.
Residential Mortgage Backed Securities (RMBS)	Securities that represent interests in a group of residential mortgages . Investors in these securities have the right to cash received from future mortgage payments (interest and/or principal).
Return on equity	Represents the ratio of the current year's profit available for distribution to ordinary shareholders to the weighted average ordinary shareholders equity for the reporting period.
Risk weighted assets	A measure of a bank's assets adjusted for their associated risks. Risk weightings are established in accordance with the Basel Capital Accord as implemented by the FSA.
Seasoning	The emergence of credit loss patterns in portfolios over time.
Secured (fully and partially)	A secured loan is a loan in which the borrower pledges an asset as collateral for a loan which, in the event that the borrower defaults, the Group is able to take possession of. All secured loans are considered fully secured if the fair value of the collateral is equal to or greater than the loan at the time of origination. All other secured loans are considered to be partly secured.
Securitisation	Securitisation is a process by which debt instruments are aggregated into a pool, which is used to back new securities. A company sells assets to a special purpose entity (SPE) who then issues securities backed by the assets based on their value. This allows the credit quality of the assets to be separated from the credit rating of the original company and transfers risk to external investors.
Senior debt	Senior debt, frequently issued in the form of senior notes, is debt that takes priority over other unsecured or otherwise more "junior" debt owed by the issuer. Senior debt has greater seniority in the issuer's capital structure after subordinated debt. In the event the issuer goes bankrupt, senior debt theoretically must be repaid before other creditors receive any payment.
Sovereign exposures	Exposures to central governments and central government departments, central banks and entities owned or guaranteed by the aforementioned. Sovereign exposures as defined by the European Banking Authority includes only exposures to central governments.
Special purpose entities (SPEs)	SPEs are entities that are created to accomplish a narrow and well defined objective. There are often specific restrictions or limits around their ongoing activities. Transactions with SPEs take a number of forms, including: <ul style="list-style-type: none">– The provision of financing to fund asset purchases, or commitments to provide finance for future purchases.– Derivative transactions to provide investors in the SPE with a specified exposure.– The provision of liquidity or backstop facilities which may be drawn upon if the SPE experiences future funding difficulties.– Direct investment in the notes issued by SPEs.
Standardised approach	In relation to credit risk, a method for calculating credit risk capital requirements using External Credit Assessment Institutions (ECAI) ratings and supervisory risk weights. In relation to operational risk, a method of calculating the operational capital requirement by the application of a supervisory defined percentage charge to the gross income of eight specified business lines.

Standard Chartered Bank

Glossary continued

Stressed value at risk	A regulatory market risk measure based on potential market movements for a continuous one-year period of stress for a trading portfolio.
Structured finance /notes	A structured note is an investment tool which pays a return linked to the value or level of a specified asset or index and sometimes offers capital protection if the value declines. Structured notes can be linked to equities, interest rates, funds, commodities and foreign currency.
Subordinated liabilities	Liabilities which, in the event of insolvency or liquidation of the issuer, are subordinated to the claims of depositors and other creditors of the issuer.
Sub-prime	Sub-prime is defined as loans to borrowers typically having weakened credit histories that include payment delinquencies and potentially more severe problems such as court judgements and bankruptcies. They may also display reduced repayment capacity as measured by credit scores, high debt-to-income ratios, or other criteria indicating heightened risk of default.
Tangible net asset value per share	Ratio of parent shareholders' equity less preference shares classified as equity and goodwill and intangible assets to the number of ordinary shares outstanding at the end of the reporting period.
Tier 1 capital	Tier 1 capital comprises Core Tier 1 capital plus innovative Tier 1 securities and preference shares and tax on excess expected losses less material holdings in credit or financial institutions.
Tier 1 capital ratio	Tier 1 capital as a percentage of risk weighted assets.
Tier 2 capital	Tier 2 capital comprises qualifying subordinated liabilities, allowable portfolio impairment provision and unrealised gains in the eligible revaluation reserves arising from the fair valuation of equity instruments held as available-for-sale.
UK bank levy	A levy that applies to certain UK banks and the UK operations of foreign banks from 1 January 2011. The levy is payable each year based on a percentage of the chargeable liabilities of the Group as at 31 December.
Value at Risk (VaR)	VaR is an estimate of the potential loss which might arise from market movements under normal market conditions, if the current positions were to be held unchanged for one business day, measured to a confidence level of 97.5 per cent.
Working profit	Operating profit before impairment losses and taxation.
Write Downs	After an advance has been identified as impaired and is subject to an impairment allowance , the stage may be reached whereby it is concluded that there is no realistic prospect of further recovery. Write downs will occur when and to the extent that, the whole or part of a debt is considered irrecoverable.

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